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BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

H. R. 7837 (S. 2639)

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

IN THREE VOLUMES

VOL. I

(INDEX AT END OF VOLUME III)

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

RESOLUTION BY MR. OWEN.

IN THE SENATE OF THE UNITED STATES,
November 6, 1913.

Resolved, That the Committee on Banking and Currency is hereby authorized to have printed the indexed hearings by the Banking and Currency Committee of the Senate on the pending banking and currency bills (S. 2639 and H. R. 7837), bound in paper, as a Senate document, * * *

Attest:

JAMES M. BAKER,
Secretary.

II

D. OF D.
AUG 12 1914

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, *Chairman* . . Oklahoma.
GILBERT M. HITCHCOCK . . . Nebraska.
JAMES A. O'GORMAN . . . . . New York.
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HENRY F. HOLLIS . . . . New Hampshire.
KNUTE NELSON . . . . . Minnesota.
JOSEPH L. BRISTOW . . . . . Kansas.
COE I. CRAWFORD . . . . South Dakota.
GEORGE P. McLEAN . . . . . Connecticut.
JOHN W. WEEKS . . . . . Massachusetts.

JAMES W. BELLER, *Clerk.*

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HEARINGS ON H. R. 7837.

TUESDAY, SEPTEMBER 2, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, Crawford, McLean, and Weeks.

The CHAIRMAN. Mr. Forgan, I believe, will act as the representative of the committee of the bankers' conference, recently held in Chicago, and will introduce the different speakers to the committee, in the order in which they wish to follow; assigning to each one of them, I believe, a certain topic relating to the bill; and they have a printed copy of the bill which they will follow in dealing with these topics, and each member of this committee will be furnished with a copy of this proposed bill, with the recommendations made by the bankers' conference; and the notes of the stenographer will follow the pages of the print which the bankers' committee have offered for use, so as to make the references intelligible.

Mr. Forgan, the committee is now ready to have you present the matters which you wish to offer.

Senator BRISTOW. Mr. Chairman, it will be necessary for me to be in the Senate this afternoon, because the tariff bill is up for consideration, and a number of amendments are coming up. I regret very much that the hearing has been called for a time when the members of the committee can not be present without neglecting their duties on the floor. I wanted to make this statement as a kind of protest against having these hearings at a time when we are considering the amendments to the tariff bill, as well as being compelled to vote on that. I hope that the hearings will not be continued during the week, because it will be impossible for me to be present. I can not be in both places at the same time.

Senator O'GORMAN. How many witnesses are there to be examined here to-day, Mr. Chairman?

Mr. FORGAN. There are seven members of this committee, and each of them desires to be heard on a specified subject.

The CHAIRMAN. The Chair will state that after the conference held in Chicago a request was made that opportunity would be afforded to the representatives of that conference to be heard upon the matters involved in the so-called banking and currency bill; and after consultation with some of the members a response was sent to them by telegraph that the hearings could be had at 2 o'clock on Tuesday, September 2, 1913—beginning at 2 o'clock to-day.

That occurred a week ago, at a time when it was hoped that the tariff bill would be substantially out of the way. Other persons

were also invited to attend and be heard, including a number who had requested the privilege of being heard upon this question. The entire report of everything which will be said will, of course, be printed at once, and will be available for every Senator, so that not a word will be said that will not be at his disposal.

Senator O'GORMAN. Could you not attend, Senator Bristow, with the understanding that you will be called into the Chamber if your presence there should be required?

Senator BRISTOW. A number of these amendments to the tariff bill have been passed over at my request in the Senate and I do not know when they may be called.

So far as the statement of the chairman is concerned, that the record will be available for us to read, that is true; but a member of the committee ought to be present at the time of the hearing, so as to give what attention he can to the subject matter at the time. I endeavor to do that so far as I can, upon all of the committees of which I am a member.

Since the House has not yet taken the bill up for consideration—unless they have done so to-day—and the Senate will not have the bill for several weeks, I can not understand why we should start in upon these hearings at the very time that the tariff is requiring our detailed attention; and I think it puts those of us who want to give our full time and attention to the currency question at a very great disadvantage

The CHAIRMAN. The Chair will state that the House caucus having agreed upon the terms of a bill, the Chair thought that the time had arrived when the bill might be conveniently considered in the light of that action of the House caucus, which had continued its consideration of the bill during the last three weeks. And the meeting was held in the present room (the room of the Committee on Appropriations) so as to enable the members of the committee to attend roll calls in the Senate with convenience and without delay, instead of holding the meetings in the regular room of the Committee on Banking and Currency, which is removed from the Senate Chamber several blocks.

Mr. SHAFROTH. Mr. Chairman, the Senator from Kansas objected to proceeding with the hearing before this committee some two or three months ago, on the ground that he had to attend the sessions of the Senate when they had the tariff discussion under way; and it was largely on account of his suggestion that I felt that the hearings ought to go over at that time.

But if we do not take up the hearings now I do not see that we can give any hearings at all; and while it is unfortunate that the Senator from Kansas can not attend as regularly as he would like, it seems to me that it would put the Senate to a great disadvantage, and put these gentlemen who have come here to great inconvenience, if we do not proceed with the hearing at the present time. I feel that we have tried to accommodate everybody—tried to have hearings, and at the same time tried to accommodate those gentlemen who thought they might be inconvenienced. And inasmuch as we are in the same building, and a call of the Senate can be responded to in a minute, it seems to me that we should proceed with these hearings.

Senator BRISTOW. So far as the postponement having been made to suit my convenience is concerned, it seems to me that it is the

duty of a Senator, when a great bill like the tariff bill is being considered on the floor of the Senate, that he make efforts to be there and give attention to the work of the Senate; and I do not believe it is a proper proceeding to hold hearings on a question of as great concern as this, and thereby make it impossible for a Senator who is interested in the tariff as well as the currency to do his duty by both measures.

And I am not asking anything important for my personal convenience, and it does not come as a matter of personal convenience. I objected to these hearings at the time the tariff bill was being considered because it makes it impossible for a member of the Senate who is interested in both measures to give his attention properly to both of them. And the fact that the hearings have been called now simply makes it impossible for me to do that.

So far as the hearings are concerned, I think we ought to have hearings—extensive hearings—but I do not think it would have been detrimental to the passage of this bill if the hearings could have been postponed until the Senate was through with the consideration of the tariff bill, which would not have been more than a week longer. And I want to enter my protest against the proceedings. I will be here as much as I can; but I can not be here as much as I would like to.

The CHAIRMAN. The Chair expresses the hope that the Senator will, as far as his interest in the tariff permits, be present. We will promptly furnish him with copies of every word that is said.

Senator HITCHCOCK. Mr. Chairman, I want to say that in my opinion the question of the hearings before this committee is a subject that ought to be passed upon by the committee itself, and I think it would have been wiser if the chairman had taken the sense of the committee before selecting any particular date for the hearings. It seems to me that every member of the committee has an equal right to have his convenience consulted, and I think it is a mistake not to do so. We are holding the hearings while the tariff is under consideration, and yet I think that at an early meeting of the committee it was the sense of the committee that this was a matter to be postponed until the tariff was out of the way. Of course, I suppose we must now go on because these gentlemen are present from a distance.

Senator BRISTOW. I suppose so.

Senator HITCHCOCK. But I think, so far as any future hearings are concerned, it ought to be submitted to a vote of the committee, and the committee ought to decide on that question because the hearings are not for the chairman alone, not for those who can be here, or for those who can stay away from the tariff debate; they are for all the members of the committee.

The CHAIRMAN. The Chair will state that he understood it was agreeable to the committee, with the exception of the Senator from Kansas, who did express his dissent.

Senator REED. Mr. Chairman, it seems to me that the whole thing resolves itself to this: The tariff debates have run on for many weeks. Many Senators have been obliged to absent themselves on committee work of various kinds and have undergone the hardships incident thereto. It has been determined by the party in majority that currency legislation shall be considered at this session.

That being true, of course every day of delay by the committee is necessarily a delay of the entire Senate. Now, we have reached

what is understood to be the last week of debate on the tariff. Nearly every important feature of the bill has been considered and debated. We are engaged now in what may well be said to be the less important features of the bill. And if we can get at this work and save four or five days' time, we will save that much time of the entire Senate.

I appreciate the hardship of the Senator from Kansas in not being able to further participate in the debate. I appreciate the loss to the country. But I suggest that these hearings will not be over in a day. All that we do will be printed, and the Senator from Kansas can have the benefit, at least, of knowing what is transpiring, although we will lose the advantage of his counsel here during the time the statements are being made by the various gentlemen who have been invited here.

I agree with the sentiment that is expressed by the Senator from Nebraska [Senator Hitchcock] that, of course, meetings of the committee ought not to be called without the members of the committee being consulted, if it was a matter of importance relating to the bill.

But I do think that the chairman of a committee has a right to call a meeting; and I do not think the chairman of this committee overstepped the bounds of his authority at all when he invited certain witnesses to appear before the committee. Now, if he were to limit the meeting to these particular witnesses, than I would think it a matter of some gravity; but that has not been done. And I think, Mr. Chairman, that we ought to go on, and if it is inconvenient, or if it is discovered to be especially inconvenient, we can postpone part of the hearings for the rest of the week.

The CHAIRMAN. The matter is, of course, entirely in the hands of the committee. I have called the committee together, in pursuance of the policy adopted by the conference of the Democratic Senators.

Senator O'GORMAN. Mr. Chairman, I move that we proceed to the examination of the witnesses.

(The motion was duly seconded and carried.)

Senator NELSON. Before we proceed, Mr. Chairman, I wish the members of the committee could be provided with copies of the bill, so that they can follow the discussion in connection with the bill.

The CHAIRMAN. That was arranged for. The copies are before the members of the committee; the bill that they are going to speak upon is before the committee.

Senator NELSON. The bill as proposed by them?

The CHAIRMAN. Yes; they have a print of their own.

Senator NELSON. Is that in this book [indicating pamphlet]?

The CHAIRMAN. Yes; showing the changes which the bankers' conference recommended.

Senator NELSON. Is that the same as the House caucus bill?

The CHAIRMAN. No; this is the same that is in the Senate.

Senator HITCHCOCK. But are there not any copies of the House caucus bill available?

Senator CRAWFORD. Mr. Chairman, as the discussion proceeds, should we not have before us the exact text of the bill which these gentlemen are addressing their criticism to?

The CHAIRMAN. It is in the handbook which is before you. And also the House bill, the latest print, is available for the committee. Copies of it will now be laid before the members.

Senator REED. That is the bill as it was after the termination of the caucus, which will be introduced by Mr. Glass.

Senator CRAWFORD. Well, is that the bill which is printed by this visiting committee here, and is it the same text as the House caucus bill?

The CHAIRMAN. It is not identical; but it is identical except as to such modifications as were made in the House caucus.

Senator CRAWFORD. Well, some of those modifications are quite material, are they not?

The CHAIRMAN. Yes; but that will be dealt with as they come before the committee. Both forms of the bill are before the members of the committee.

Senator CRAWFORD. I have the Glass bill here; and I have the other bill in this pamphlet.

The CHAIRMAN. That includes everything. I think it would be well to insert in the record at this point, as Exhibit No. 1, the printed report adopted by the conference of bankers at Chicago. This report contains the banking and currency bill, as revised by the House committee for consideration of the Democratic caucus, with the modifications therein recommended by the bankers' conference in Chicago. It also contains, I understand, a list of those present at the conference.

EXHIBIT No. 1.

PREAMBLE.

The Currency Commission of the American Bankers' Association, charged with the duty of endeavoring to secure remedial banking legislation, and regarding the banking measure now pending in Congress as evidencing the earnest wish of the administration to give a wise law to the country, has profoundly desired to cooperate in every way. To this end, upon its invitation that the presidents of the forty-seven State bankers' associations and that representatives of the one hundred and ninety-one clearing houses attend and unite in an expression, this joint body, composed of bankers from every section of the South and North, from coast to coast, representing country and city banks, State and National, and trust companies, after carefully considering the bill, has adopted the following:

Whereas we recognize the imperative necessity of incorporating into the banking and currency system of this country those proven principles which will provide the most ample credit facilities with greatest safety and a currency based on gold which automatically adjusts its volume to trade requirements, in order that the highest stability may be attained for our commerce, thereby assuring continuity of employment for the laborer and favorable markets for the producer—the fundamental basis of general prosperity; and

Whereas although the pending measure has many excellent features and recognizes certain principles fundamental in any scientific banking system, yet it is believed that the application of those principles may in certain respects be made in ways that will more surely avoid a credit disturbance and more efficiently attain the desired benefits for the whole people; and

Whereas we believe that to insure the successful operation of a new banking law it must be of such a character as to warrant a general acceptance of its provisions by existing banking institutions, both State and National, country and city, since the final test of the measure of success must be the strength and power for efficiently serving the interests of the entire country, which can alone be had from general participation of banks of all classes; and believing that the bill as now drawn will, by its onerous provisions, prevent State banks and many national banks from joining the system, and earnestly desiring to cooperate with the administration in bringing about the adoption of the most highly efficient plan:

Therefore be it resolved, That we recommend the following changes in the bill as now published, convinced that, while not rendering the plan ideal, these changes would render organization more probable, would avoid a credit disturbance, and provide a system that would gradually develop into a great bulwark for the protection of our whole commerce, benefiting alike, and in equal measure, the laborer, the farmer, and the business man.

It is the sense of this conference that one Federal reserve bank with as many branches as the commerce of the country may require, would be more effective; but if this be not obtainable we recommend that as few Federal reserve banks be established as possible, and not more than a total number of five.

The further recommendations of the conference will more conveniently appear in the following altered copy of the bill.

THE BANKING AND CURRENCY BILL IN CONGRESS AS REVISED BY THE HOUSE COMMITTEE FOR CONSIDERATION BY THE ADMINISTRATION CAUCUS, AUGUST 11, 1913.

[The parts inclosed in heavy brackets is the matter proposed to be stricken out and the parts in italics shows proposed amendments, all the alterations being recommended by the bankers' conference.]

To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the "Federal reserve act."

FEDERAL RESERVE DISTRICTS.

SECTION 2. That within ninety days after the passage of this act, or as soon thereafter as practicable, the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate from among the reserve and central reserve cities now authorized by law a number of such cities to be known as Federal reserve cities, and shall divide the continental United States into districts, each district to contain one of such Federal reserve cities: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business of the community and shall not necessarily coincide with the area of such State or States as may be wholly or in part included in any given district. The districts thus created may be readjusted and new districts may from time to time be created by the Federal reserve board hereinafter established, acting upon a joint application made by not less than ten member banks desiring to be organized into a new district. The districts thus constituted shall be known as Federal reserve districts and shall be designated by number according to the pleasure of the organization committee, and no Federal reserve district shall be abolished, nor the location of a Federal reserve bank changed, except upon the application of three-fourths of the member banks of such district.

The organization committee shall, in accordance with regulations to be established by itself, proceed to organize in each of the reserve cities designated as hereinbefore specified a Federal reserve bank. Each such Federal reserve bank shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago," and so forth. The total number of reserve cities designated by the organization committee shall be not [less than twelve,] *more than five*, and the organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigations as may be deemed necessary by the said committee for the purpose of determining the reserve cities to be designated and organizing the reserve districts hereinbefore provided.

Every national bank *and state bank and trust company* located within a given district [shall be required to] *may* subscribe to the capital stock of the Federal reserve bank of that district a sum equal to [twenty] *ten* per centum of its unimpaired capital, one-[fourth] *half* of such subscription to be paid in cash and one-[fourth within sixty days after said subscription is made. The remainder of the subscription or any part thereof shall become a liability of the subscriber, subject to call and payment thereof whenever necessary to meet the obligations of the Federal reserve bank] *half subject to call upon sixty days' previous notice. The unpaid portion of the subscription or any part thereof shall become a liability of the subscriber subject to call upon 60 days' previous notice* under such terms and in accordance with such regulations as the board of directors of said Federal reserve bank may prescribe: *Provided*, That no Federal reserve bank shall be organized with a paid-up and unimpaired capital at the time of beginning business less in amount than $5,000,000. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

STOCK ISSUES.

SECTION 3. That the capital stock of each Federal reserve bank shall be divided into shares of $100. The outstanding capital stock shall be increased from time to time as subscribing banks increase their capital or as additional banks become subscribers, and shall be decreased as subscribing banks reduce their capital or cease to be stockholders. Each Federal reserve bank may establish branch offices under regulations of the Federal reserve board at points within the Federal reserve district in which it is located: *Provided*, That the total number of such branches shall not exceed one for each $500,000 of the capital stock of said Federal reserve bank.

FEDERAL RESERVE BANKS.

SECTION 4. That a sufficient number of national banks in a Federal reserve district having made and filed with the Comptroller of the Currency a certificate in the form required in sections fifty-one hundred and thirty-four and fifty-one hundred and thirty-five of the Revised Statutes of the United States, such national banks shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power to perform all those acts and to enjoy all those privileges and to exercise all those powers described in section fifty-one hundred and thirty-six, Revised Statutes, save in so far as the same shall be limited by the provisions of this act. The Federal reserve banks so incorporated shall have succession for a period of twenty years from its organization, unless sooner dissolved by act of Congress.

Every Federal reserve bank shall be conducted under the oversight and control of a board of directors, whose powers shall be the same as those conferred upon the boards of directors of national banking associations under existing law, not inconsistent with the provisions of this act. Such board of directors shall be constituted and elected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who shall be representative of the general public interests of the reserve district.

Class C shall consist of three members, who shall be designated by the Federal reserve board, *and who shall be legal residents of the district in which the Federal reserve bank is located.*

Directors of class A shall be chosen in the following manner:

It shall be the duty of the chairman of the board of directors of the Federal reserve bank of the district in which each such bank is situated to classify the member banks of the said district who are stockholders in the said Federal reserve bank into three general groups or divisions. Each such group shall contain as nearly as may be one-third of the aggregate number of the banks holding stock in the Federal reserve bank of the said district and shall consist as nearly as may be of banks of similar capitalization. The said groups shall be designated by number at the pleasure of the chairman of the Federal reserve bank.

At a regularly called directors' meeting of each member bank in the Federal reserve district aforesaid the board of directors of such member bank shall elect by ballot one of its own members as a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The said chairman shall establish lists of the district reserve electors, class A, thus named by banks in each of the aforesaid three groups and shall transmit one list to each such elector in each group. Every elector shall, within fifteen days of the receipt of the said list, select and certify to the said chairman from among the names on the list pertaining to his group, transmitted to him by the chairman, one name, not his own, as representing his choice for Federal reserve director, class A. The name receiving the greatest number of votes, not less than a majority, shall be designated by said chairman as Federal reserve director for the group to which he belongs. In case no candidate shall receive a majority of all votes cast in any district, the chairman aforesaid shall establish an eligible list, consisting of the three names receiving the greatest number of votes on the first ballot, and shall transmit said list to the electors in each of the groups of banks established by him. Each elector shall at once select and certify to the said chairman from among the three names submitted to him his choice for Federal reserve director, class A, and the name receiving the greatest number of such votes shall be designated by the chairman as Federal reserve director, class A.

Directors of class B shall be chosen by the electors of the respective groups at the same time and in the same manner prescribed for directors of class A, except that

they must be selected from a list of names furnished one by each member bank, and such names shall in no case be those of officers or directors of any bank or banking association. They shall not accept office as such during the term of their service as directors of the Federal reserve bank. They shall be fairly representative of the commercial, agricultural, or industrial interests of their respective districts. [The Federal reserve board shall have power at its discretion to remove any director of class B in any Federal reserve bank if it should appear at any time that such director does not fairly represent the commercial, agricultural, or industrial interests of his district.]

Three directors belonging to class C shall be chosen directly by the Federal reserve board, one of whom [shall be designated by said board as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed and] shall be designated *by said board* as "Federal reserve agent." He shall be a *legal* resident of the district for which he is [selected] *elected* and shall be a person of tested banking experience; [and in addition to his duties as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed,] he shall be required to maintain under regulations to be established by the Federal reserve board a local office of said board, which shall be situated on the premises of the Federal reserve bank of the district. He shall make regular reports to the Federal reserve board, and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal reserve board and paid monthly by the Federal reserve bank to which he is designated.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meet ings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for members of such boards shall be subject to review by the Federal reserve board.

The reserve bank organization committee may, in organizing Federal reserve banks for the first time, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this act and may exercise the functions herein conferred upon [the chairman of the board of directors of] each Federal reserve [bank] *agent* pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank after organization it shall be the duty of the directors of classes A and B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years; but the [chairman of the board of directors] *Federal reserve agent* of each Federal reserve bank designated by the Federal reserve board, as hereinbefore described, shall be removable at the pleasure of the said board without notice, and his successor shall hold office during the unexpired term of the director in whose place he was appointed. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

INCREASE AND DECREASE OF CAPITAL.

SECTION 5. That shares of the capital stock of Federal reserve banks shall not be transferable, nor be hypothecated. In case a subscribing bank increases its capital, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to [twenty] *ten* per centum of the bank's own increase of capital, [ten] *fifty* per centum of said subscription to be paid in cash in the manner hereinbefore provided for original subscription, and [ten] *fifty* per centum to become a liability of the subscribing bank according to the terms of the original subscription. A bank applying for stock in a Federal reserve bank at any time after the formation of the latter must subscribe for an amount of the capital of said reserve bank equal to [twenty] *ten* per centum of the capital of said subscribing bank, paying therefor its par value in accordance with the terms prescribed by section two of this act. When the capital of any Federal reserve bank has been increased either on account of the increase of capital of the banks holding stock therein or on account of the increase in the number of stockholding banks, the board of directors shall make and execute a certificate to the Comptroller of the Currency showing said increase in capital, the amount paid in, and by whom paid. In case a subscribing bank

reduces its capital it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and in case a bank goes into voluntary liquidation it shall surrender all of its holdings of the capital of said Federal reserve bank. In either case the shares surrendered shall be canceled and the bank shall receive in payment therefor a sum equal to its cash paid subscriptions on the shares surrendered.

SECTION 6. That if any shareholder of a Federal reserve bank shall become insolvent and a receiver be appointed, the stock held by it in said Federal reserve bank shall be canceled and the balance, after deducting from the amount of its cash paid subscriptions all debts due by such insolvent bank to said Federal reserve bank, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital of any bank or of the liquidation or insolvency of any such bank, the board of directors shall make and execute a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SECTION 7. That after the payment of all necessary expenses and taxes of a Federal reserve bank, the shareholders shall be entitled to receive an annual dividend of [five] *six* per centum on the paid-in capital, which dividend shall be cumulative. One-half of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid into a surplus fund until such fund shall amount to twenty per centum of the paid-in capital of such bank, and of the remaining one-half sixty per centum shall be paid to the United States and forty per centum to the member banks in the ratio of their average balances with the Federal reserve bank for the preceding year. Whenever and so long as the surplus fund of a Federal reserve bank amounts to twenty per centum of the paid-in capital and the shareholders shall have received the dividends at the rate of [five] *six* per centum per annum hereinbefore provided for, sixty per centum of all excess earnings shall be paid to the United States and forty per centum to the member banks in proportion to their annual average balances with such Federal reserve bank; all earnings derived by the United States from Federal reserve banks shall constitute a sinking fund to be held for the reduction of the outstanding [bonded] indebtedness of the United States, said reduction to be accomplished under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, the surplus fund of said bank, after the payment of all debts and dividend requirements as hereinbefore provided for, shall be paid to and become the property of the United States.

Every Federal reserve bank incorporated under the terms of this act and the stock therein held by member banks shall be exempt from Federal, State, and local taxation, except in respect to taxes upon real estate.

SECTION 8. That any national banking association heretofore organized may upon application at any time [within one year] after the passage of this act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights, and be subject to all the liabilities, of national banking associations organized subsequent to the passage of this act: *Provided*, That such application on the part of such associations shall be authorized by the consent in writing of stockholders owning not less than a majority of the capital stock of the association. [Any national banking association now organized which shall not, within one year after the passage of this act, become a national banking association under the provisions hereinbefore stated, or which shall fail to comply with any of the provisions of this act applicable thereto, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have previously been incurred.]

SECTION 9. That any bank or banking association incorporated by special law of any State or of the United States, or organized under the general laws of any State or the United States, and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of existing laws, may, by the consent in writing of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national banking association under its former name *with the addition of the word "National" or the words "National Banking Association" as provided by existing law* or by any name approved by the comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of the law. When the comptroller has given to such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges,

and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this act or by the national banking act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.

SECTION 10. That from and after the passage of this act any bank or banking association or trust company incorporated by special law of any State, or organized under the general laws of any State or the United States, may make application to the *reserve bank organization committee or the* Federal reserve board [hereinafter created] for the right to subscribe to the stock of the Federal reserve bank organized within the Federal reserve district where the applicant is located. The *reserve bank organization committee or the* Federal reserve board may, at its discretion, subject to the provisions of this section, permit such applying bank to become a stockholder in the Federal reserve bank of the district in which such applying bank is located, or at its discretion may reject such application. Whenever the *reserve bank organization committee or the* Federal reserve board may permit such an applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located stock shall be issued and paid for under the rules and regulations in this act provided for national banks which become stockholders in Federal reserve banks.

It shall be the duty of the *reserve bank organization committee or the* Federal reserve board to establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies hereinbefore referred to for stock ownership in Federal reserve banks. Such by-laws shall require of applying banks not organized under Federal law that they comply with the reserve requirements and submit to the inspection and regulation provided for in this and other laws relating to national banks. No such applying bank shall be admitted to stock ownership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking act, and conforms to the provisions herein prescribed for national banking associations of similar capitalization and to the regulations of the *reserve bank organization committee or the* Federal reserve board.

If at any time it shall appear to the Federal reserve board that a banking association or trust company organized under the laws of any State or of the United States has failed to comply with the provisions of this section or the regulations of the board, it shall be within the power of the said board to require such banking association or trust company to surrender its stock in the Federal reserve bank in which it holds shares upon receiving from such bank the cash-paid subscriptions to the said shares in current funds, and said Federal reserve bank shall upon notice from the Federal reserve board be required to suspend the designated banking association or trust company from futher privileges of membership, and shall within thirty days of such notice cancel and retire its shares and make payment therefor in the manner herein provided.

FEDERAL RESERVE BOARD.

[SECTION 11. That there shall be created a Federal reserve board, which shall consist of seven members, including the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, who shall be members ex officio, and four members chosen by the President of the United States, by and with the advice and consent of the Senate. In selecting the four appointive members of the Federal reserve board, the President shall have due regard to a fair representation of different geographical divisions of the country. The four members of the Federal reserve board chosen by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal reserve board and shall each receive an annual salary of $10,000, together with an allowance for actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of said Federal reserve board, shall, in addition to the salary now paid him as comptroller, receive the sum of $5,000 annually for his services as a member of said board. Of the members thus appointed by the President not more than two shall be of the same political party, and at least one shall be a person experienced in banking. One shall be designated by the President to serve for two, one for four, one for six, and one for eight years, respectively, and thereafter each member so appointed shall serve for a term of eight years unless sooner removed for cause by the President. Of the four persons thus appointed, one shall be designated by the President as manager and one as vice manager of the Federal reserve board. The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and board, shall be the active executive officer of the Federal reserve board.]

That there shall be created a Federal reserve board which shall consist of seven members, including the Secretary of the Treasury, who shall be a member ex officio, and three members chosen by the President of the United States by and with the advice and consent of the Senate, and three members elected by the directors of the Federal reserve banks. In selecting the three appointive members of the Federal reserve board, the President shall have due regard to a fair representation of different geographical divisions of the country. The three members of the Federal reserve board chosen by the President and confirmed as aforesaid, and the three members elected by the directors of the Federal reserve banks shall devote their entire time to the business of the Federal reserve board and except as to the governor and vice governor hereinafter provided for shall each receive an annual salary of $10,000, together with an allowance for actual necessary traveling expenses. Of the members thus appointed by the President and elected by the directors of the Federal reserve banks, two shall serve for three years, two for six years, and two for nine years, respectively, and thereafter each member so appointed shall serve for a term of nine years unless sooner removed for cause by the President. Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal reserve board. The governor of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and board, shall be the active executive officer of the Federal reserve board. The salary of the governor and vice governor of the Federal reserve board shall be fixed by the board of directors thereof.

The Federal reserve board shall have power to levy semiannually upon the Federal reserve banks, in proportion to capital, an assessment sufficient to pay its estimated expenses for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal reserve board shall be held in Washington, District of Columbia, as soon as may be after the passage of this act, at a date to be fixed by the reserve bank organization committee. The Secretary of the Treasury shall be ex officio chairman of the Federal reserve board. No member of the Federal reserve board shall continue to hold office or to act as a director of any bank or banking institution or Federal reserve bank, and before entering upon his duties as a member of the Federal reserve board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the [four] *three* members of the Federal reserve board chosen by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when chosen, shall hold office for the unexpired term of the member whose place he is selected to fill.

Whenever a vacancy shall occur other than by expiration of term among the three members of the Federal reserve board elected by the directors of the Federal reserve banks as above provided, a successor shall be elected by the said directors to fill such vacancy and when elected shall hold office for the unexpired term of the member whose place he is selected to fill.

The Federal reserve board shall annually make a report of its fiscal operation to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged, except as in this act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by or through banking associations, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general direction of the Secretary of the Treasury, acting as the chairman of the Federal reserve board:" *Provided, however*, That nothing herein contained shall be construed to affect any power now vested by law in the Comptroller of the Currency or the Secretary of the Treasury.

Section 12. That the Federal reserve board hereinbefore established shall be authorized and empowered:

(a) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the several institutions, single and combined, and shall furnish full information regarding the character of the lawful money held as reserve and the amount, nature, and maturities of the paper owned by Federal reserve banks.

(b) To permit [or, in time of emergency, require] Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks[, all members of the board being present when such action is taken and consenting to the requirement. The exercise of this compulsory rediscount power by the Federal reserve board shall

be subject to an interest charge to the accommodated bank of not less than one nor greater than three per centum above the higher of the rates prevailing in the districts immediately affected].

(c) To suspend for a period not exceeding thirty days (and to renew such suspension for periods not to exceed fifteen days) any and every reserve requirement specified in this act.

(d) To supervise and regulate the issue and retirement of Federal reserve notes and to prescribe the form and tenor of such notes.

[(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this act; or to reclassify existing reserve and central reserve cities and to designate the banks therein situated as country banks at its discretion.]

(f) To suspend the officials of Federal reserve banks and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency, dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for cause relating to violation of any of the provisions of this act, the operations of any Federal reserve bank and appoint a receiver therefor.

[(i) To perform the duties, functions, or services specified or implied in this act.]

FEDERAL ADVISORY COUNCIL.

[SECTION 13. There is hereby created a Federal advisory council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select one member of said council, who shall receive no compensation for his services, but may be reimbursed for actual necessary expenses. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal reserve board. The council may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

[The Federal advisory council shall have power (1) to meet and confer directly with the Federal reserve board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for complete information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open market operations by said banks, and the general affairs of the reserve banking system.]

REDISCOUNTS.

SECTION 14. That any Federal reserve bank may receive from any of its stockholders or, solely for exchange purposes, from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent banks, payable upon presentation.

Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transactions; that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used for such purposes, the Federal reserve board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act; but such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks or bonds [, or other securities]. Notes and bills admitted to discount under the terms of this paragraph must have a maturity of not more than sixty days.

Upon the indorsement of any member bank any Federal reserve bank may discount the paper of the classes hereinbefore described having a maturity of more than sixty and not more than one hundred and twenty days, when its own cash reserve exceeds thirty-three and one-third per cent of its total outstanding demand liabilities exclusive of its outstanding Federal reserve notes by an amount to be fixed by the Federal reserve board; but not more than fifty per cent of the total paper so discounted for any member bank shall have a maturity of more than ninety days.

Upon the indorsement of any member bank any Federal reserve bank may discount acceptances of such banks which are based on the exportation or the importation of

goods and which mature in not more than six months and bear the signature of at least one member bank in addition to that of the acceptor. The amount so discounted shall at no time exceed one-half the capital of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any national bank may, at its discretion, accept drafts or bills of exchange drawn upon it [having] *at* not more than six months sight [to run] and growing out of transactions involving the importation or exportation of goods; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half the face value of its paid-up and unimpaired capital.

OPEN-MARKET OPERATIONS.

SECTION 15. That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange of the kinds and maturities by this act made eligible for rediscount, and cable transfers.

Every Federal reserve bank shall have power (a) to deal in gold coin and bullion both at home and abroad, to make loans thereon, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds; (b) to invest in United States bonds, [and bonds issued by any State, county, district, or municipality;] (c) to purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined, payable in foreign countries, but such bills of exchange must have not exceeding ninety days to run and must bear the signature of two or more responsible parties, of which the last shall be that of a member bank; (d) to establish each week, or as much oftener as required, subject to review and determination of the Federal reserve board, a rate of discount to be charged by such bank for each class of paper, which shall be fixed with a view of accommodating the commerce of the country; and (e) with the consent of the Federal reserve board, to open and maintain banking accounts in foreign countries and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting foreign bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, prime foreign bills of exchange arising out of commercial transactions which have not exceeding ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.

SECTION 16. That all moneys now held in the general fund of the Treasury *except the 5% fund for the redemption of outstanding national-bank notes* shall, upon the direction of the Secretary of the Treasury, within twelve months after the passage of this act, be deposited in Federal reserve banks, which banks shall act as fiscal agents of the United States; and thereafter the revenues of the Government shall be regularly deposited in such banks, and disbursements shall be made by checks drawn against such deposits.

The Secretary of the Treasury shall, subject to the approval of the Federal reserve board, from time to time, apportion the funds of the Government among the said Federal reserve banks, distributing them, as far as practicable, equitably between different sections, and may, at their joint discretion, charge interest thereon and fix, from month to month, a rate, never less than one-half of one per centum per annum, which shall be regularly paid by the banks holding such deposits: *Provided*, That no Federal reserve bank shall pay interest upon any deposits except those of the United States.

No Federal reserve bank shall receive or credit deposits except from the Government of the United States, its own member banks, and, to the extent permitted by this act, from other Federal reserve banks. All domestic transactions of the Federal reserve banks involving a rediscount operation or the creation of deposit accounts shall be confined to the Government and the depositing and Federal reserve banks, with the exception of the purchase or sale of Government [or State] securities or of gold coin or bullion.

NOTE ISSUES.

[SECTION 17. That Federal reserve notes, to be issued at the discretion of the Federal reserve board for the purpose of making advances to Federal reserve banks as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable for all taxes, customs, and other public dues. They shall be redeemed in gold or lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal reserve bank.

[Any Federal reserve bank may, upon vote of its directors, make application to the local Federal reserve agent for such amount of the Treasury notes hereinbefore provided for as it may deem best. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral security to protect the notes for which application is made equal in amount to the sum of the notes thus applied for. The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of sections 14 and 15 of this act, and the Federal reserve agent shall each day notify the Federal reserve board of issues and withdrawals of notes to and by the Federal reserve bank to which he is accredited. The said Federal reserve board shall be authorized at any time to call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

[Whenever any Federal reserve bank shall pay out or disburse Federal reserve notes issued to it as hereinbefore provided, it shall segregate in its own vaults and shall carry to a special reserve account on its books gold or lawful money equal in amount to thirty-three and one-third per centum of the reserve notes so paid out by it, such reserve to be used for the redemption of said reserve notes as presented; but any Federal reserve bank so using any part of such reserve to redeem notes shall immediately carry to said reserve account an amount of gold or lawful money sufficient to make said reserve equal to thirty-three and one-third per centum of its outstanding Treasury notes. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal reserve board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank through which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid and returned to the Federal reserve banks through which they were originally issued, and Federal reserve notes received by the Treasury otherwise than for redemption shall be exchanged for lawful money out of the five per centum redemption fund hereinafter provided and returned as hereinbefore provided to the reserve bank through which they were originally issued.

[The Federal reserve board shall have power, in its discretion, to require Federal reserve banks to maintain on deposit in the Treasury of the United States a sum in gold or lawful money equal to five per centum of such amount of Federal reserve notes as may be issued to them under the provisions of this act; but such five per centum shall be counted and included as part of the thirty-three and one-third per centum reserve hereinbefore required. The said board shall also have the right to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent and in the amount that such application may be granted the Federal reserve board shall, through its local Federal reserve agent, deposit Federal reserve notes with the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal reserve board; and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, become a first and paramount lien on all the assets of such bank.

[Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by the deposit of Federal reserve notes, whether issued to such bank or to some other reserve bank, or lawful money of the United States, or gold bullion, with any Federal reserve agent or with the Treasurer of the United States; and such reduction shall be accompained by a corresponding reduction in the required reserve fund of lawful money set apart for the redemption of said notes and by the release of a corresponding amount of the collateral security deposited with the local Federal reserve agent.

[Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of Federal reserve notes deposited

with it, and shall at the same time substitute other collateral of equal value approved by the Federal reserve agent under regulations to be prescribed by the Federal reserve board.]

That Federal reserve bank notes to be issued by permission of the Federal reserve board by Federal reserve banks are hereby authorized. The said notes shall be obligations of the Federal reserve banks of issue and shall be receivable by all national and Federal reserve banks and for all taxes, customs, and other public dues.

They shall be redeemed in gold on demand by the bank of issue.

Any Federal reserve bank, upon vote of its directors and within a limit prescribed by the Federal reserve board, may issue such amount of the notes hereinbefore provided for as it may deem best.

Whenever any Federal reserve bank shall pay out Federal reserve bank notes issued by it as hereinbefore provided, it shall segregate in its own vaults and shall carry to a special reserve account on its books gold equal in amount to 40 per centum of the Federal reserve bank notes so paid out by it, such reserve to be used for the redemption of said Federal reserve bank notes; but any Federal reserve bank so using any part of such reserve to redeem notes shall immediately carry to said reserve account an amount of gold sufficient to make said reserve equal to 40 per centum of its outstanding Federal reserve bank notes, except as herein provided.

The full amount of such note issues by each of said banks shall at all times be covered by such notes and bills of exchange and such bank acceptances as the Federal reserve banks are by section 14 of this act empowered to discount with the endorsement of member banks or by such prime bankers' bills and bills of exchange payable in foreign countries as the Federal reserve banks are by section 15 of this act permitted to purchase in the open market; but nothing herein provided shall prevent the exchange of said Federal reserve bank notes for gold of equal amount or the issue of said Federal reserve bank notes for the purchase of a like amount of gold. Notes so paid out shall bear upon their faces the name of the issuing bank.

Whenever the gold reserve is 40 per centum or more, such notes may be issued without tax; whenever such reserve shall fall below 40 per centum and shall be between 37½ per centum and 40 per centum, such deficiency of reserve shall bear a tax of interest at the rate of 1½ per centum per annum; and for each 2½ per centum or part thereof of further reduction of reserve an additional tax of interest at the rate of 1½ per centum per annum on such deficiency of reserve shall be paid into the Treasury of the United States; and whenever and while such reserve shall be reduced to 33½ per centum of such outstanding notes, no further issue of such notes shall be made.

Whenever Federal reserve bank notes issued by one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank by which they were originally issued, and at its expense for transportation. No Federal reserve bank shall pay out notes issued by another under penalty of a tax of 10 per centum upon the face value of notes so paid out. The amount of such Federal reserve bank notes so issued by any such Federal reserve bank shall become a first and paramount lien on all the assets of any such Federal reserve bank.

It shall be the duty of every Federal reserve bank to receive on deposit, at par [and without charge for exchange or collection,] checks and drafts drawn upon [any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in] any other Federal reserve bank [upon funds to the credit of said depositor in said reserve bank last mentioned. The Federal reserve board shall make and promulgate from time to time regulations governing the transfer of funds at par among Federal reserve banks, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its shareholding banks.]

SECTION 18. That so much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes, as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds be, and the same is hereby, repealed.

REFUNDING BONDS.

SECTION 19. That upon application the Secretary of the Treasury shall exchange the two per centum bonds of the United States bearing the circulation privilege deposited by any national banking association with the Treasurer of the United

States as security for circulating notes for three per centum bonds of the United States without the circulation privilege, payable after twenty years from date of issue, and exempt from Federal, State, and municipal taxation both as to income and principal. No national bank shall, in any one year, present two per centum bonds for exchange in the manner hereinbefore provided to an amount exceeding five per centum of the total amount of bonds on deposit with the Treasurer by said bank for circulation purposes. Should any national bank fail in any one year to so exchange its full quota of two per centum bonds under the terms of this act, the Secretary of the Treasury may permit any other national bank or banks to exchange bonds in excess of the five per centum aforesaid in an amount equal to the deficiency caused by the failure of any one or more banks to make exchange in any one year, allotment to be made to applying banks in proportion to their holdings of bonds. At the expiration of twenty years from the passage of this act every holder of United States two per centum bonds then outstanding shall receive payment at par and accrued interest. After twenty years from the date of the passage of this act national-bank notes still remaining outstanding shall be recalled and redeemed by the national banking associations issuing the same within a period and under regulations to be prescribed by the Federal reserve board, and notes still remaining in circulation at the end of such period shall be secured by an equal amount of lawful money to be deposited in the Treasury of the United States by the banking associations originally issuing such notes. Meanwhile every national bank may continue to apply for and receive circulating notes from the Comptroller of the Currency based upon the deposit of two per centum bonds or of any other bonds bearing the circulation privilege; but no national bank shall be permitted to issue other circulating notes except such as are secured as in this section provided or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

[BANK RESERVES.

[SECTION 20. That within sixty days from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he shall elect, the fact that a Federal reserve bank has been established in any designated district, every national banking association within said district which shall have subscribed for stock in such Federal reserve bank shall deposit with the Federal reserve bank therein as a part of its required reserve an amount not less than three per centum of its own total demand liabilities, exclusive of circulating notes, and at the end of fourteen months from the date thus fixed by the Secretary of the Treasury shall increase the said three per centum to five per centum. Such reserve may at any time be increased, but shall at no time be allowed to fall below the amounts aforesaid.

[From and after the date fixed by the Secretary of the Treasury as aforesaid, it shall be the duty of national banking associations now or hereafter classified as country banks and situated outside of central reserve and reserve cities to maintain a reserve equal to fifteen per centum of the aggregate amount of their deposits. Such reserve shall consist of five per centum of lawful money held actually in their own vaults and for a period of fourteen months from the date aforesaid shall consist of at least three per centum and thereafter of at least five per centum, with its district Federal reserve bank. The remainder of the fifteen per centum reserve hereinbefore required may for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury, as hereinbefore provided, consist of balances due from national banks in reserve or central reserve cities as now defined by law. From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury, as hereinbefore provided, the said remainder of the fifteen per centum reserve required of country banks shall consist either of lawful money in its own vaults or of balances on deposit with the Federal reserve bank of its district, or both.

[BANKS IN RESERVE CITIES.

[From and after the date announced by the Secretary of the Treasury of the establishment of the Federal reserve bank in any district it shall be the duty of the national banks located in the reserve cities of such district to maintain for a period of sixty days a reserve of twenty-five per centum of their outstanding deposits and permanently thereafter a reserve of twenty per centum of their outstanding deposits. For sixty days from the date announced by the Secretary of the establishment of the reserve bank in such district each national bank located in the reserve cities thereof shall maintain in its own vaults, in lawful money, a sum equal to twelve and one-half per centum of its outstanding deposits and thereafter a sum of lawful money equal

to ten per centum of its deposits. The additional required legal reserve above the lawful money required in its own vaults may be kept either with the Federal reserve bank in its district or with an approved reserve agent in the central reserve cities, for a period not exceeding thirty-six months from the organization of the Federal reserve bank in such district, and thereafter five per centum of such reserve shall be kept with the Federal reserve bank of the district or in the vaults of the member bank subject to the reserve requirements of this act: *Provided, however*, That the credit balance of three per centum and five per centum, respectively, of its deposits required to be kept with the Federal reserve bank of its district, as hereinbefore provided, shall not be diminished.

[CENTRAL RESERVE CITY BANKS.

[Every national bank located in a central reserve city shall maintain for a period of sixty days a reserve equal to twenty-five per centum of its deposits and thereafter it shall maintain a reserve equal to twenty per centum of its deposits. Of this required reserve five per centum may consist of a deposit with the Federal reserve bank of the district, the balance being in lawful money in its own vaults, and after sixty days from the passage of this act, at the bank's option, one-half of this required reserve may consist of a credit balance with the said Federal reserve bank, but at no time shall the reserve of lawful money be less than ten per centum of the bank's deposits: *Provided, however*, That the required credit balance of three per centum and five per centum, respectively, to be maintained with the Federal reserve bank of its district, as hereinbefore provided, shall not be diminished.]

It shall be the duty of all member banks to maintain reserves, as hereinafter stated, against all demand deposits which shall include time deposits maturing within forty-five days, to wit: Country banks, 12 per cent; reserve city banks, 18 per cent; central reserve city banks, 20 per cent.

In the case of a country bank such reserve shall consist of not less than 4 per centum of lawful money in its vault, and not less than 4 per centum with its district Federal reserve bank; 4 per cent may consist of balances due from reserve agents approved by the Comptroller of the Currency.

In the case of a reserve city bank, such reserve shall consist of not less than 6 per centum lawful money in its vault, and not less than 6 per centum with its district Federal reserve bank. Six per cent may consist of balances due from reserve agents approved by the Comptroller of the Currency.

In the case of a central reserve city bank, such reserve shall consist of not less than 10 per centum lawful money in its vaults and not less than 10 per centum with its district Federal reserve bank.

Provided, That when the date is set by the Secretary of the Treasury, and officially announced, the deposits of reserve hereinbefore required to be placed with Federal reserve banks shall be made as follows: One-third within sixty days, one-third within fourteen months, and one-third within twenty-six months after such date.

[SECTION 21. That so much of sections two and three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, be, and the same is hereby, repealed. And from and after the passage of this act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.]

SECTION 22. That every Federal reserve bank shall at all times have on hand in its own vaults, in gold or lawful money, a sum equal to not less than thirty-three and one-third per centum of its outstanding demand liabilities *exclusive of its circulating notes otherwise hereinbefore provided for.*

The Federal reserve board may notify any Federal reserve bank whose lawful reserve shall be below the amount required to be kept on hand to make good such reserve; and if such bank shall fail for thirty days thereafter so to make good its lawful reserve, the Federal reserve board may appoint a receiver to wind up the business of said bank.

BANK EXAMINATIONS.

SECTION 23. That the examination of the affairs of every national banking association authorized by existing law shall take place at least twice in each calendar year and as much oftener as the Federal reserve board shall consider necessary in order

States as security for circulating notes for three per centum bonds of the United States without the circulation privilege, payable after twenty years from date of issue, and exempt from Federal, State, and municipal taxation both as to income and principal. No national bank shall, in any one year, present two per centum bonds for exchange in the manner hereinbefore provided to an amount exceeding five per centum of the total amount of bonds on deposit with the Treasurer by said bank for circulation purposes. Should any national bank fail in any one year to so exchange its full quota of two per centum bonds under the terms of this act, the Secretary of the Treasury may permit any other national bank or banks to exchange bonds in excess of the five per centum aforesaid in an amount equal to the deficiency caused by the failure of any one or more banks to make exchange in any one year, allotment to be made to applying banks in proportion to their holdings of bonds. At the expiration of twenty years from the passage of this act every holder of United States two per centum bonds then outstanding shall receive payment at par and accrued interest. After twenty years from the date of the passage of this act national-bank notes still remaining outstanding shall be recalled and redeemed by the national banking associations issuing the same within a period and under regulations to be prescribed by the Federal reserve board, and notes still remaining in circulation at the end of such period shall be secured by an equal amount of lawful money to be deposited in the Treasury of the United States by the banking associations originally issuing such notes. Meanwhile every national bank may continue to apply for and receive circulating notes from the Comptroller of the Currency based upon the deposit of two per centum bonds or of any other bonds bearing the circulation privilege; but no national bank shall be permitted to issue other circulating notes except such as are secured as in this section provided or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

[BANK RESERVES.

[SECTION 20. That within sixty days from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he shall elect, the fact that a Federal reserve bank has been established in any designated district, every national banking association within said district which shall have subscribed for stock in such Federal reserve bank shall deposit with the Federal reserve bank therein as a part of its required reserve an amount not less than three per centum of its own total demand liabilities, exclusive of circulating notes, and at the end of fourteen months from the date thus fixed by the Secretary of the Treasury shall increase the said three per centum to five per centum. Such reserve may at any time be increased, but shall at no time be allowed to fall below the amounts aforesaid.

[From and after the date fixed by the Secretary of the Treasury as aforesaid, it shall be the duty of national banking associations now or hereafter classified as country banks and situated outside of central reserve and reserve cities to maintain a reserve equal to fifteen per centum of the aggregate amount of their deposits. Such reserve shall consist of five per centum of lawful money held actually in their own vaults and for a period of fourteen months from the date aforesaid shall consist of at least three per centum and thereafter of at least five per centum, with its district Federal reserve bank. The remainder of the fifteen per centum reserve hereinbefore required may for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury, as hereinbefore provided, consist of balances due from national banks in reserve or central reserve cities as now defined by law. From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury, as hereinbefore provided, the said remainder of the fifteen per centum reserve required of country banks shall consist either of lawful money in its own vaults or of balances on deposit with the Federal reserve bank of its district, or both.

[BANKS IN RESERVE CITIES.

[From and after the date announced by the Secretary of the Treasury of the establishment of the Federal reserve bank in any district it shall be the duty of the national banks located in the reserve cities of such district to maintain for a period of sixty days a reserve of twenty-five per centum of their outstanding deposits and permanently thereafter a reserve of twenty per centum of their outstanding deposits. For sixty days from the date announced by the Secretary of the establishment of the reserve bank in such district each national bank located in the reserve cities thereof shall maintain in its own vaults, in lawful money, a sum equal to twelve and one-half per centum of its outstanding deposits and thereafter a sum of lawful money equal

to ten per centum of its deposits. The additional required legal reserve above the lawful money required in its own vaults may be kept either with the Federal reserve bank in its district or with an approved reserve agent in the central reserve cities, for a period not exceeding thirty-six months from the organization of the Federal reserve bank in such district, and thereafter five per centum of such reserve shall be kept with the Federal reserve bank of the district or in the vaults of the member bank subject to the reserve requirements of this act: *Provided, however*, That the credit balance of three per centum and five per centum, respectively, of its deposits required to be kept with the Federal reserve bank of its district, as hereinbefore provided, shall not be diminished.

[CENTRAL RESERVE CITY BANKS.

[Every national bank located in a central reserve city shall maintain for a period of sixty days a reserve equal to twenty-five per centum of its deposits and thereafter it shall maintain a reserve equal to twenty per centum of its deposits. Of this required reserve five per centum may consist of a deposit with the Federal reserve bank of the district, the balance being in lawful money in its own vaults, and after sixty days from the passage of this act, at the bank's option, one-half of this required reserve may consist of a credit balance with the said Federal reserve bank, but at no time shall the reserve of lawful money be less than ten per centum of the bank's deposits: *Provided, however*, That the required credit balance of three per centum and five per centum, respectively, to be maintained with the Federal reserve bank of its district, as hereinbefore provided, shall not be diminished.]

It shall be the duty of all member banks to main'ain reserves, as hereinafter stated, against all demand deposits which shall include time deposits maturing within forty-five days, to wit: Country banks, 12 per cent; reserve city banks, 18 per cent; central reserve city banks, 20 per cent.

In the case of a country bank such reserve shall consist of not less than 4 per centum of lawful money in its vault, and not less than 4 per centum with its district Federal reserve bank; 4 per cent may consist of balances due from reserve agents approved by the Comptroller of the Currency.

In the case of a reserve city bank, such reserve shall consist of not less than 6 per centum lawful money in its vault, and not less than 6 per centum with its district Federal reserve bank. Six per cent may consist of balances due from reserve agents approved by the Comptroller of the Currency.

In the case of a central reserve city bank, such reserve shall consist of not less than 10 per centum lawful money in its vaults and not less than 10 per centum with its district Federal reserve bank.

Provided, That when the date is set by the Secretary of the Treasury, and officially announced, the deposits of reserve hereinbefore required to be placed with Federal reserve banks shall be made as follows: One-third within sixty days, one-third within fourteen months, and one-third within twenty-six months after such date.

[SECTION 21. That so much of sections two and three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, be, and the same is hereby, repealed. And from and after the passage of this act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.]

SECTION 22. That every Federal reserve bank shall at all times have on hand in its own vaults, in gold or lawful money, a sum equal to not less than thirty-three and one-third per centum of its outstanding demand liabilities *exclusive of its circulating notes otherwise hereinbefore provided for.*

The Federal reserve board may notify any Federal reserve bank whose lawful reserve shall be below the amount required to be kept on hand to make good such reserve; and if such bank shall fail for thirty days thereafter so to make good its lawful reserve, the Federal reserve board may appoint a receiver to wind up the business of said bank.

BANK EXAMINATIONS.

SECTION 23. That the examination of the affairs of every national banking association authorized by existing law shall take place at least twice in each calendar year and as much oftener as the Federal reserve board shall consider necessary in order

to furnish a full and complete knowledge of its condition. The Secretary of the Treasury may, however, at any time direct the holding of a special examination. The person assigned to the making of such examination of the affairs of any national banking association shall have power to call together a quorum of the directors of such association, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this act all bank examiners shall receive fixed salaries, the amount whereof shall be determined by the Federal reserve board and annually reported to Congress. But the expense of the examinations herein provided for shall be assessed by the Federal reserve board upon the associations examined in proportion to assets or resources held by such associations upon a date during the year in which such examinations are held to be established by the Federal reserve board. [The Comptroller of the Currency shall so arrange the duties of national-bank examiners that no two successive examinations of any association shall be made by the same examiner.]

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve board, arrange for special or periodical examination of the member banks within its district. Such examination shall be so conducted as to inform the Federal reserve bank under whose auspices it is carried on of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal reserve board such information as may be demanded by the latter concerning the condition of any national banking association located within the district of the said Federal reserve bank.

[The Federal reserve board shall as often as it deems best, and in any case not less frequently than four times each year, order an examination of national banking associations in reserve cities. Such examinations shall show in detail the total amount of loans made by each bank on demand, on time, and the different classes of collateral held to protect the various loans, and the lines of credit which are being extended by them.] Upon joint application of ten member banks the Federal reserve board shall order a special examination and report of the condition of any Federal reserve bank.

SECTION 24. That no national bank shall hereafter make any loan or grant any gratuity to any examiner of such bank. Any bank offending against this provision shall be deemed guilty of a misdemeanor and shall be fined not more than $5,000, and a further sum equal to the money so loaned or gratuity given; and the officer or officers of a bank making such loan or granting such gratuity shall be likewise deemed guilty of a misdemeanor and shall be fined not to exceed $5,000. Any examiner accepting a loan or gratuity from any bank examined by him shall be deemed guilty of a misdemeanor and shall be fined not more than $5,000, and a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform any other service for compensation while holding such office.

No officer or director of a national bank shall receive or be beneficiary, either directly or indirectly, of any fee (other than a legitimate fee paid an attorney at law for legal services), commission, gift, or other consideration for or on account of any loan, purchase, sale, payment, exchange, or transaction with respect to stocks, bonds, or other investment securities or notes, bills of exchange, acceptances, bankers' bills, cable transfers or mortgages made by or on behalf of a national bank of which he is such officer or director. Any person violating any provision of this section shall be punished by a fine of not exceeding $5,000 or by imprisonment not exceeding five years, or both such fine and imprisonment, in the discretion of the court having jurisdiction.

Except so far as already provided in existing laws this provision shall not take effect until six months after the passage of this act.

[SECTION 25. That from and after the passage of this act the stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations shall be liable to the same extent as if they had made no such transfer; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure. Section fifty-one hundred and fifty-one, Revised Statutes of the United States, is hereby reenacted except in so far as modified by this section.]

LOANS ON FARM LANDS.

SECTION 26. That any national banking association not situated in a reserve city or central reserve city may make loans secured by improved and unencumbered farm land, and so much of section fifty-one hundred and thirty-seven of the Revised Statutes as prohibits the making of such loans by banks so situated shall be, and the same is hereby, repealed; but no such loan shall be made for a longer time than [nine] *twelve* months, nor for an amount exceeding fifty per centum of the actual value of the property offered as security, and such property shall be situated within the Federal reserve district in which the bank is located. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus, or fifty per centum of its time deposits.

The Federal reserve board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

SAVINGS DEPARTMENT.

[SECTION 27. That any national banking association may, subsequent to a date one year after its becoming a stockholder in a Federal reserve bank, make application to the Comptroller of the Currency for permission to open a savings department. Such application shall set forth that the directors of said national bank have by a majority vote apportioned a specified percentage of their paid-in capital and surplus to said savings department and to that end have segregated specified assets for the purposes of said department, or that cash capital for the said savings department has been obtained by subscription to additional issues of the capital stock of said national bank: *Provided*, That the sum in assets or in cash thus set apart for the uses of the proposed savings department aforesaid shall in no case be less than $25,000, or than a sum equal to twenty per centum of the paid-up capital and surplus of the said national bank.

[In making the application aforesaid any national banking association may further apply for power to act as trustee for mortgage loans subject to the conditions and limitations herein prescribed or to be established as hereinafter provided.

[Whenever the Comptroller of the Currency shall have approved any such application as hereinbefore provided, he shall so inform the applying bank, and thereafter the organization and business conducted or possessed by said bank at the time of making said application, except such as has been specifically segregated for the savings department, and subsequent expansions thereof shall be known as the commercial department of the said bank. National banks may increase or diminish their capital stock in the manner now provided by law, but whenever such general increase or reduction of the capital stock of any national bank operating upon the provisions of this section shall be made such increase or reduction shall be apportioned between the commercial and savings department of the said bank as its board of directors shall prescribe, notice of such increase or reduction and of the apportionment thereof being forthwith given to the Comptroller of the Currency; and any such national bank may increase or diminish the capital already apportioned to either its savings or commercial department to an extent not inconsistent with the provisions of this section, notifying the Comptroller of the Currency as hereinbefore provided. The savings department for which authority has been solicited and granted shall have control of the cash or assets apportioned to it as hereinbefore provided, and shall be organized under rules and regulations to be prescribed by the Comptroller of the Currency.

[Both the savings and commercial departments so created shall, however, be under the control and direction of a single board of directors and of the general officers of said bank.

[All business transacted by the commercial department of any such national bank shall be in every respect subject to the limitations and requirements provided in the national banking act as modified by this act, and such business shall henceforward be known as commercial business.

[The savings department of each such national bank shall be authorized to accumulate and loan the funds of its depositors, to receive deposits of current funds, both time and demand, to loan any funds in its possession upon personal or real estate security, and to collect the same with interest, and to declare and pay dividends or interest, both upon demand and time deposits. The Federal reserve board is hereby authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kinds of business laid down in the national

banking act, and it shall be the duty of the said board within one year after its organization to prepare and publish rules and regulations for the conduct of business by such savings departments, conforming to the best standards prescribed by the legislation of the several States: *Provided*, That such rules and regulations shall not be inconsistent with the provisions of this section. All business transacted by the savings departments of national banks shall be designated and known as savings bank business.

[Nothing in this section contained shall be construed to authorize any such savings department to purchase, invest in, or hold bonds, securities, or evidences of indebtedness, public or private, except as follows:

[(a) First mortgages or deeds of trust on real estate, including farm lands, and the notes or bonds for whose protection such mortgages or deeds of trust may have been given: *Provided*, That such mortgages, deeds, notes, or bonds shall have when purchased not more than five years to run and provided further that the total debt secured by such instruments shall not exceed fifty per centum of the assessed value of the real estate upon which they constitute a lien.

[(b) Bonds or interest-bearing notes of the United States or bonds or notes for whose payment the faith of the United States is pledged both as to principal and interest.

[(c) Bonds of any State of the United States: *Provided*, That for ten years prior to the purchase of such bonds by savings bank department the State issuing the same shall not have defaulted in the payment of any part either of principal or of interest thereon.

[(d) Bonds of any city, county, or town: *Provided*, That such city, county, or town shall at the time when said bonds are purchased by a savings bank department have more than twenty-five thousand inhabitants, the United States census next preceding such investment being taken as evidence of the possession of said number of inhabitants: *And provided further*, That such city, county, or town shall not have defaulted in the payment of any part of the principal or interest of its bonded debt within ten years prior to the making of the investment aforesaid. The total bonded indebtedness of such city, county, or town shall not at the time of such investment exceed five per centum of the assessed valuation therein and such bonds shall have been issued pursuant to the law of the State in which such city, county, or town is situated.

[(e) First-mortgage bonds of any steam or street railway, public utility, or industrial corporation operating partly or wholly in the United States: *Provided*, That the same shall have been approved by the Comptroller of the Currency.

[(f) First-mortgage bonds or deeds of trust issued by any real estate corporation: *Provided*, That no such bond issue or deed of trust shall exceed in amount fifty per centum of the assessed value of the real estate upon which it constitutes a lien.

[The Federal reserve board shall have power further to define the conditions under which the said mortgages, deeds of trust, notes, bonds, and other securities hereinbefore enumerated may be purchased by any such savings bank department, and may at its discretion make and issue lists of such securities having its approval, or may list securities in which savings bank department aforesaid shall be prohibited from investing. Such lists may be published in any manner deemed best by the said Federal reserve board.

[It shall be the duty of every national bank to maintain with respect to the demand liabilities of its commercial department the reserve applicable thereto, as provided by the national banking act and by this act.

[It shall be the duty of every national bank to maintain, with respect to all deposit liabilities of its savings department, a cash reserve in lawful money equal to not less than four per centum of its total deposit liabilities, and every national bank authorized to maintain a savings department is hereby exempted from the reserve requirements of the national banking act and of this act in respect to the said deposit liabilities of its savings department, except as in this section provided.

[Every national bank authorized to operate a commercial department and a savings department under the provisions of this section shall segregate in its vaults the lawful money reserve of each such department and shall separately maintain, report, and account for such reserve. Whenever any such department, whether savings or commercial, shall deposit current funds with other banks, such deposits shall be credited upon the books of such other banks as made by and belonging to the department of the depositing bank by which or in whose interest they were originally made and shall be paid only upon the order of such department. No department of any such national bank shall receive deposits from any other department of the same bank.

[It shall be the duty of every national bank to maintain separate books of account for each of its departments and to segregate and keep separate and distinct in each such department the cash, securities, investments, and property thereto belonging, and each such department shall in the transaction of its business and the making of its investments be exclusively governed and controlled by the provisions of law and the regulations of the Federal reserve board or of the Comptroller of the Currency specifically made and provided with reference thereto.

[Any national bank authorized under the provisions of this section to maintain a savings department may make and publish rules and regulations defining the conditions under which deposits shall be received and paid by such savings department. Such regulations may specify the period of notices which such department may at its option require for the withdrawal of such deposits: *Provided*, That no such deposits shall be subject to a requirement of less than sixty days' notice of withdrawal. The said rules and regulations shall be subject to the approval of the Comptroller of the Currency and he shall have power to direct their alteration at his discretion.

[Every officer, director, or employee of any national bank who knowingly or willfully violates any of the provisions of this section shall be guilty of a felony, and on conviction thereof shall be punished by a fine not exceeding $5,000 or by imprisonment not exceeding two years.]

FOREIGN BRANCHES.

SECTION 28. That any national banking association possessing a capital of $1,000,000 or more may file application with the Federal reserve board, upon such conditions and under such circumstances as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries for the furtherance of the foreign commerce of the United States and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the foreign country or countries or the dependencies of the United States where the banking operations proposed are to be carried on and the amount of capital set aside by the said banking association filing such application for the conduct of its foreign business at the branches proposed by it to be established in foreign countries. The Federal reserve board shall have power to approve or to reject such application if in its judgment the amount of capital proposed to be set aside for the conduct of foreign business is inadequate or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish branches in foreign countries shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal reserve board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each such branch as a separate item.

SECTION 29. That all provisions of law inconsistent with or superseded by any of the provisions of this act be, and the same are hereby, repealed.

DELEGATES PRESENT AT THE CONFERENCE.

CURRENCY COMMISSION, AMERICAN BANKERS' ASSOCIATION.

MEMBERS PRESENT.

A. B. Hepburn, chairman of board, Chase National Bank, New York City, chairman.
James B. Forgan, president First National Bank, Chicago, Ill., vice chairman.
Festus J. Wade, president Mercantile Trust Company, St. Louis, Mo.
Joseph T. Talbert, vice president National City Bank, New York City.
George M. Reynolds, president Continental & Commercial National Bank, Chicago, Ill.
John Perrin, of Perrin, Drake & Riley, bankers, Los Angeles, Cal.
Luther Drake, president Merchants National Bank, Omaha, Nebr.
Sol. Wexler, vice president Whitney Central National Bank, New Orleans, La.
E. F. Swinney, president First National Bank, Kansas City, Mo.
Joseph A. McCord, vice president Third National Bank, Atlanta, Ga.
J. F. Sartori, president Security Trust & Savings Bank, Los Angeles, Cal.
Levi L. Rue, president Philadelphia National Bank, Philadelphia, Pa.
E. L. Howe, vice president Princeton Bank, Princeton, N. J.
Frederick E. Farnsworth, New York, secretary.
Arthur Reynolds, vice president of the association.
J. Fletcher Farrell, treasurer of the association.

REPRESENTATIVES OF STATE BANKERS' ASSOCIATIONS PRESENT.

State.	Delegate.	Banking affiliations.
Arkansas	J. D. Covey	President Arkansas Bankers' Association.
		Cashier Benton County National Bank, Bentonville.
California	John Perrin	Member currency commission, American Bankers' Association, Los Angeles.
	J. F. Sartori	President Security Trust and Savings Bank, Los Angeles.
		Member currency commission, American Bankers' Association.
Connecticut	E. J. Hill	Vice President National Bank of Norwalk.
District of Columbia	W. T. Galliher	President American National Bank, Washington.
		Second vice president the District of Columbia Bankers' Association.
	John Poole	President Federal National Bank, Washington, D. C., and secretary District of Columbia Bankers' Association.
Georgia	L. P. Hillyer	President Georgia Bankers' Association.
		Vice president American National Bank, Macon, Ga.
Illinois	J. D. Phillips	President Illinois Bankers' Association.
		Vice president and cashier Green Valley Bank, Green Valley, Ill.
	Richard L. Crampton	Secretary Illinois Bankers' Association, Chicago.
	J. S. Alsthorpe	Chairman executive council Illinois Bankers' Association, Cairo.
	John B. Jackson	Chairman legislative committee Illinois Bankers' Association, Anna.
Indiana	J. L. McCulloch	President Indiana Bankers' Association.
		President Marion National Bank, Marion, Ind.
Iowa	J. L. Edwards	President Merchants National Bank, Burlington, Iowa.
	E. L. Johnson	Waterloo, Iowa, of the Leavitt and Johnson Trust Company.
Kansas	W. J. Bailey	President Kansas Bankers' Association.
		Vice president Exchange National Bank, Atchison, Kans.
Louisiana	Sol. Wexler	Vice president Whitney Central National Bank, New Orleans.
		Member currency commission, American Bankers' Association.
Maryland	Wm. C. Page	President Maryland Bankers' Association.
		President Calvert Bank, Baltimore.
Massachusetts	Chas. B. Blinn, jr	Vice president National Union Bank, Boston.
Michigan	A. G. Bishop	President Genesee County Savings Bank, Flint.
Minnesota	G. H. Richards	Secretary Minnesota Bankers' Association.
	N. F. Banfield	Vice president First National Bank, Austin, Minn.
		Member Minnesota Bankers' Association currency committee.
Mississippi	J. F. Flournoy, jr	President Mississippi Bankers' Association.
		Cashier First National Bank, Canton, Miss.
Missouri	R. S. Hawes	Vice president Missouri Bankers' Association.
		Vice president Third National Bank, St. Louis.
Nebraska	Geo. F. Sawyer	President Nebraska Bankers' Association.
		Saline County Bank, Western, Nebraska.
New Jersey	W. M. Van Deusen	Cashier National Newark Banking Company, Newark, N. J.
		Chairman currency committee.
New York	A. B. Hepburn	Chairman of the board, Chase National Bank, New York.
		Member currency commission of the American Bankers Association.
	J. T. Talbert	Vice president National City Bank, New York.
		Member currency commission, American Bankers' Association.
North Carolina	Geo. A. Halderness	President North Carolina Bankers' Association.
		President Farmers' Banking and Trust Company Tarboro, N. C.
Ohio	S. D. Fitton	President Ohio Bankers' Association.
		President First National Bank, Hamilton, Ohio.
Oregon	E. A. Wyld	Vice president Security Savings and Trust Company Portland.
Pennsylvania	M. I. McCreight	President Deposit National, Dubois, Pa.
South Carolina	Bright Williamson	President South Carolina Bankers' Association.
		President Bank of Darlington, S. C.
South Dakota	J. E. Platt	Secretary South Dakota Bankers' Association.
	N. E. Franklin	First National Bank, Deadwood.
	M. P. Beebe	President Bankers' Association of South Dakota.
		President Bank of Ipswich, Ipswich, S. Dak.
	J. C. Basset	President Aberdeen National Bank, Aberdeen.
		Currency committee.
Tennessee	F. M. Mayfield	Secretary Tennessee Bankers' Association.
	I. B. Tigritt	Representative Tennessee Bankers' Association.
Texas	Nathan Adams	President Texas Bankers' Association.
		Cashier American Exchange National Bank, Dallas.
Utah	Frank Knox	President National Bank of the Republic, Salt Lake.
		President Utah State Bankers' Association.
Virginia	Oliver J. Sands	President American National Bank, Richmond Va.
West Virginia	J. S. Hill	Secretary West Virginia Bankers' Association.
		Cashier Nations City Bank, Charleston.

REPRESENTATIVES OF STATE BANKERS' ASSOCIATIONS PRESENT—Continued.

State.	Delegate	Banking affiliations.
Wisconsin	H. A. Moehlenpah	President State association.
	Geo. D. Bartlett	Cashier Citizens Bank, Clinton, Wis.
	E. M. Wing	Secretary State association.
		American Bankers' Association Council, La Crosse, Wis.
	A. J. Frame	President Waukesha National Bank, Waukesha, Wis.

REPRESENTATIVES OF CLEARING HOUSE ASSOCIATIONS PRESENT.

City and State.	Delegate.	Banking affiliations.
Aberdeen, S. Dak	C. A. Russell	President Citizens Trust and Savings Bank.
		President clearing house association.
Akron, Ohio	C. I. Bruner	Vice President First-Second National Bank.
Albany, N. Y	James H. Perkins	President National Commercial Bank.
	Ledyard Cogswell	President New York State National Bank.
Amarillo, Texas	W. H. Fuqua	President First National Bank.
		President clearing house.
Atlanta, Ga	Robt. F. Maddox	Representing Atlanta Clearing House Association.
	Jos. A. McCord	Vice president Third National Bank, Atlanta, Ga.
		Member Currency Commission.
Baltimore, Md	Chas. T. Crane	President Farmers and Merchants National Bank.
Birmingham, Ala	W. P. G. Harding	President First National Bank.
Boston, Mass	Alfred L. Ripley	Vice president Merchants National Bank.
Buffalo, N. Y	Willard F. Hopkins	Vice president Third National Bank.
Canton, Ohio	H. S. Kaufman	Cashier City National Bank.
		Secretary and manager Canton Clearing House Association.
Cedar Rapids, Iowa	E. M. Scott	President Security Savings Bank.
Champaign, Ill	B. F. Harris	Vice president First National Bank.
Chicago, Ill	Charles G. Dawes	President Central Trust Company of Illinois.
	W. T. Fenton	Vice president National Bank of the Republic.
Cincinnati, Ohio	C. A. Hinsch	President Fifth-Third National Bank.
		President clearing house.
Cleveland, Ohio	J. J. Sullivan	President Central National Bank.
	E. R. Fancher	Vice president Union National Bank.
Columbus, Ohio	L. F. Kiesewetter	Vice president Ohio National Bank.
	Theo. S. Huntington	Vice president Huntington National Bank.
Dallas, Texas	Nathan Adams	Cashier American Exchange National Bank.
Danville, Ill	M. J. Wolford	President Palmer National Bank.
Davenport, Iowa	J. H. Hass	President Scott County Savings Bank.
		President Davenport Clearing House.
Decatur, Ld	O. B. Gorin	President Millikan National Bank.
		President clearing house.
Des Moines, Iowa	Homer A. Miller	President Iowa National Bank.
	R. A. Crawford	President Valley National Bank.
	J. C. Rounds	President Citizens National Bank.
	Arthur Reynolds	President Des Moines National Bank.
		Vice president American Bankers' Association.
Detroit, Mich	George H. Russel	President Peoples State Bank.
Erie, Pa	R. J. Moorhead	President Security Savings and Trust Company.
Evansville, Ind	Henry Reis	President Old State National Bank.
		Vice-president Evansville Clearing House.
Flint, Mich	Bruce J. MacDonald	Cashier National Bank of Flint.
Ft. Wayne, Ind	C. H. Worden	Vice president First National Bank.
	Samuel M. Foster	German American National Bank.
Ft. Worth, Texas	Noah Harding	Vice president Fort Worth National Bank.
	J. L. Johnson	
	W. E. Connell	President First National Bank.
Galveston, Texas	J. W. Hoopes	Vice president City National Bank.
		Vice president Galveston Clearing House.
Hamilton, Ohio	S. D. Fitton	President First National Bank of Hamilton.
		Delegate Hamilton Clearing House.
Hartford Conn	Lucius A. Barbour	President Charter Oak National Bank.
Hastings, Nebr	C. C. Lane	President Exchange National Bank.
		President clearing house.
Hattiesburg, Miss	F. W. Foote	Vice president National Bank of Commerce.
Houston, Texas	J. T. Scott	Vice president First National Bank.
		President clearing house.
Indianapolis, Ind	S. A. Fletcher	President Fletcher American National Bank.
		President clearing house association.
Jacksonville, Ill	M. F. Dunlap	President Ayers National Bank.
Jackson, Miss	Oscar Newton	President Jackson Bank.
Kansas City, Mo	Geo. S. Hovey	President Inter State National Bank.
	W. Goebel	President Commercial National Bank
	E. F. Swinney	President First National Bank.
		Member currency commission of American Bankers' Association.
Lexington, Ky	J. W. Porter	Cashier First and City National Bank.
Lincoln, Nebr	S. H. Burnham	President First National Bank.
Little Rock, Ark	Geo. W. Rogers	Cashier Bank of Commerce.

REPRESENTATIVES OF CLEARING HOUSE ASSOCIATIONS PRESENT—Continued

City and State.	Delegate.	Banking affiliations.
Los Angeles, Cal	Stoddard Jess	Vice president First National Bank.
Louisville, Ky	L. C. Murray	President American National Bank.
	E. L. Swearingen	President First National Bank.
	John H. Leathers	President Louisville National Banking Company.
Macon, Ga	L. P. Hillyer	Vice president American National Bank.
McAlester, Okla	Sam. L. Morley	Vice president McAlester Trust Company.
Memphis, Tenn	S. E. Ragland	Vice president Central State National Bank.
Meridian, Miss	Walker Broach	Vice president First National Bank.
Milwaukee, Wis	J. W. P. Lombard	President National Exchange Bank.
	Wm. Bigelow	Vice president First National Bank.
Minneapolis, Minn	F. A. Chamberlain	President Security National Bank. President clearing house.
	C. T. Jaffray	Vice president First National Bank.
	Joseph Chapman	Vice president Northwestern National Bank.
Montclair, N. J	Robt. L. Cox	Montclair Trust Company.
Muskogee, Okla	H. H. Ogden	President First National Bank.
New Castle, Pa	David Jameson	President Citizens' National Bank.
New Orleans, La	J. H. Fulton	President Commercial National Bank.
	Sol. Wexler	Vice president Whitney Central National Bank. Member currency commission of American Bankers' Association.
New York, N Y	William Woodward	President Hanover National Bank.
Omaha, Nebr	F. H. Davis	Vice president First National Bank.
Pasadena, Cal	A. E Edwards	Cashier First National Bank.
Peoria, Ill	Fred Luthy	President Merchants National Bank. Representing Peoria Clearing House Association.
Pittsburgh, Pa	Chas. McKnight	President Western National Bank. President Pittsburgh Clearing House Association.
Portland, Oreg	E. A. Wyld	Vice president Security Savings and Trust Company.
Providence, R. I	Moses J Barber	Vice president Merchants National Bank.
Reading, Pa	Randolph S. Weck	Cashier Farmers National Bank.
Richmond, Va	Julien H. Hill	Cashier National State and City Bank.
	John M. Miller, jr	Vice President First National Bank.
	Oliver J. Sands	President American National Bank.
	Thos. B. McAdams	Cashier Merchants National Bank.
Rochester, N. Y	Henry C. Brewster	Vice president Traders National Bank.
Rockford, Ill	Chandler Starr	Cashier Winnebago National Bank. President Rockford Clearing House.
	J. D. Waterman	President Forest City National Bank. Vice president clearing house.
Sacramento, Ca	Stoddard Jess (special rep.)	Vice president First National Bank, Los Angeles.
Saginaw, Mich	George B Morley	President Second National Bank.
St Joseph, Mo	R. T. Forbes	President First National Bank.
	Graham G. Lacy	Vice president Tootle-Lemon National Bank.
St. Louis, Mo	Walker Hill	President Mechanics-American National Bank.
	Festus J. Wade	President St. Louis Clearing House. Member currency commission o American Banking Association.
St. Paul, Minn	Geo. H. Prince	Chairman board, Merchants Nationa Bank.
	J. W. Lusk	Merchants National Bank.
Salt Lake City, Utah	T. W Boyer	Cashier Continental National Bank. President Salt Lake City Clearing House.
	Frank Knox	President National Bank of the Republic. Secretary Salt Lake City Clearing House Association
Savannah, Ga	Wm. M. Davant	Cashier Merchants National Bank. President Savannah Clearing House.
Seattle, Wash	M. F. Backus	President National Bank of Commerce.
Sioux City, Iowa	John McHugh	President First National Bank.
	George S. Parker	President Live Stock National Bank.
South Bend, Ind	Jacob Woolverton	President St. Joseph County Savings Bank and South Bend Clearing House.
Spokane, Wash	J. P. M. Richards	President Spokane and Eastern Trust Company.
Springfield, Ill	E. W. Payne	President State National Bank.
Superior, Wis	Wm. B. Banks	President First National Bank.
Syracuse, N. Y	Arthur W. Loasby	First National Bank and president Syracuse Clearing House.
Tacoma, Wash	Chas. R. McKay	Tacoma Clearing House.
Toledo, Ohio	Spencer D. Carr	President National Bank of Commerce. Vice president clearing house.
Topeka, Kans	F. M. Bonebrake	Vice president Merchants National Bank.
Vicksburg, Miss	W. Thos. Ross	Vice president and manager American Bank and Trust Company. President clearing house.
Washington, D. C	W. T. Galliher	President American Nationa Bank. Washington Clearing House.
Waterbury, Conn	F. W. Judson	Assistant cashier Waterbury National Bank. Clearing House Association.
Wheeling, W. Va	Robert C. Dalzell	Cashier City Bank of Wheelin and president clearin house.
Youngstown, Ohio	Mason Evans	President Commercial National Bank.
Texarkana, Texas	J. A. Pondrom	Vice president Texarkana National Bank.

STATEMENT OF JAMES B. FORGAN, PRESIDENT OF THE FIRST NATIONAL BANK, CHICAGO, ILL.

Mr. FORGAN. Mr. Chairman and gentlemen of the committee, we appear before you as a committee of seven bankers, appointed at a conference called by the currency commission of the American Bankers' Association, held in Chicago, August 22 and 23, 1913. All the State bankers' associations and all the clearing houses in the country were asked to send representatives to the conference; and appended to the report which has been submitted to you will be found a list of the delegates present.

Senator REED. Mr. Chairman, I would like to request now that order be maintained in this room. If there is anybody here who desires to converse, I suggest that they go out into the hall.

The CHAIRMAN. This hearing is very important, the Chair will state to visitors; and we hope therefore that silence will be observed, so that the speakers can be distinctly heard. Mr. Forgan, will you proceed?

Mr. FORGAN. We appear before you primarily as representatives of the banks. We would, however, respectfully remind you that the bankers of the country come into close relation with three important classes of the community, whose interests it is their business to study, and as far as possible harmonize on an equitable basis. These are the bank stockholders, who supply the capital; the thrifty and industrious members of the community, who supply the bank deposits; and commercial, industrial, and agricultural borrowers, whose business development and prosperity depend largely on the credits given them by the banks.

Senator WEEKS. Mr. Chairman, I would like to ask if the witness wishes to be interrupted from time to time by questions, or to complete his statement before he is asked questions?

The CHAIRMAN. What is your pleasure, Mr. Forgan?

Mr. FORGAN. Well, I am not much of a speaker, and I would rather get through with it, if it is not inconvenient to the committee; and then either I or any other member of our committee will be glad to answer any questions.

The CHAIRMAN. The committee, of course, has the right, if it sees fit, to interrupt a witness, but unless there is some particular reason, I assume that that will not be done.

Senator CRAWFORD. I suggest that where a statement has been carefully prepared and is written, we get the effect of it and its meaning better by allowing the speaker to finish it, and then have the inquiries follow the reading of the paper.

The CHAIRMAN. The Chair is of the opinion that that is within the discretion of the committee, and the witness will proceed.

Mr. FORGAN. These three classes combined form a large percentage of the population, and bankers fully realize that the general prosperity of the country depends upon the maintenance of proper relations between them and the banks.

The business of the banks is to exchange credits with the public. It is therefore essential that, as a working basis, mutual confidence between them and the public should be maintained. Bankers would be shortsighted indeed, if, ignoring these fundamental relations,

they should approach the study of banking and currency legislation with purely selfish motives and solely from their own side of the subject. It is the duty of the directors and officers of the bank to study the interests of the millions of their savings and other depositors, for whom they are trustees, as well as those of their shareholders and of their borrowers.

Hence, as the chosen representatives of the banks, we claim that in a very real sense, we represent the interests of all whose patronage the banks rely on for success, and especially the interests of the innumerable hosts of thrifty and desirable citizens who manifest their confidence in the banks by trusting them with deposits aggregating more than $20,000,000,000. Individually bankers do not experience the much-talked-of distrust of the banks. Rather they duly appreciate the confidence evinced by the public by placing such an enormous line of deposits with the banks under their management, and they are keenly impressed with the responsibility such a trust imposes upon them.

As chairman of this committee, I now hand each of you a copy of the report unanimously adopted at our Chicago conference, the preamble to which reads as follows:

The currency commission of the American Bankers' Association, charged with the duty of endeavoring to secure remedial banking legislation and regarding the banking measure now pending in Congress as evidencing the earnest wish of the administration to give a wise law to the country, has profoundly desired to cooperate in every way. To this end, upon its invitation that the presidents of the 47 State bankers' associations and that representatives of the 191 clearing houses attend and unite in an expression, this joint body composed of bankers from every section of the South and North, from coast to coast, representing country and city banks, State and National and trust companies, after carefully considering the bill has adopted the following:

Whereas we recognize the imperative necessity of incorporating into the banking and currency system of this country those proven principles which will provide the most ample credit facilities with greatest safety and a currency based on gold which automatically adjusts its volume to trade requirements, in order that the highest stability may be attained for our commerce, thereby assuring continuity of employment for the laborer and favorable markets for the producer—the fundamental basis of general prosperity; and

Whereas although the pending measure has many excellent features and recognizes certain principles fundamental in any scientific banking system, yet it is believed that the application of those principles may in certain respects be made in ways that will more surely avoid a credit disturbance and more efficiently attain the desired benefits for the whole people; and

Whereas we believe that to insure the successful operation of a new banking law it must be of such a character as to warrant a general acceptance of its provisions by existing banking institutions, both State and National, country and city, since the final test of the measure of success must be the strength and power for efficiently serving the interests of the entire country which can alone be had from general participation of banks of all classes; and believing that the bill as now drawn will, by its onerous provisions, prevent State banks and many National banks from joining the system, and earnestly desiring to cooperate with the administration in bringing about the adoption of the most highly efficient plan: Therefore be it

Resolved, That we recommend the following changes in the bill as now published, convinced that, while not rendering the plan ideal, these changes would render organization more probable, would avoid a credit disturbance, and provide a system that would gradually develop into a great bulwark for the protection of our whole commerce, benefiting alike, and in equal measure, the laborer, the farmer, and the business man.

It is the sense of this conference that one Federal reserve bank with as many branches as the commerce of the country may require, would be more effective; but if this be not obtainable we recommend that as few Federal reserve banks be established as possible, and not more than a total number of five.

The duty of explaining to you the reason for these various changes has been divided among the members of this committee. To each member of the committee has been assigned one or more features of the measure in which changes are suggested. We will run through the bill and I will call upon the members of our committee to explain the changes as they occur. They can be further discussed at your pleasure as we proceed, and any questions in regard to them the members of the committee desire to ask we will be pleased to answer.

The first suggested change is in connection with the number of Federal reserve banks, and it has been assigned to me to give our reasons for thinking that one Federal reserve bank, with as many branches as the commerce of the country may require, would be more effective than a greater number, but if that be not obtainable our reasons for recommending that there be as few as possible, and not more than five at the outside.

Some one has said that the most economical, scientific, and effective method of handling the gold reserves of the banks of the country would be to consolidate them into one large reservoir for the protection of all. The current operations between the banks and the central reservoir would cause but a ripple on the surface, while the great, staple mass of gold would inspire public confidence in all the banks for the protection of which it is held. For years the central object of banking reform in this country has been to find some practical method of mobilizing and controlling the lawful money reserves of the banks for the protection of them all, instead of relying upon each to individually acquire, maintain, and protect its own.

The great defect of our present system and the prime cause of our periodical disturbances is that each of the 25,000 banks now in existence, having no adequate means of protecting its reserves, or of replenishing them when they fall below its legal requirement, must enter into competition with all the rest for an amount sufficient for its individual needs. Whenever a financial strain becomes general, a scramble among the banks for lawful money occurs, which begets fear, and panic follows. The citizens of each community measure the strength of their local banks by the amount of cash they hold. The banks, realizing this, undertake to strengthen their position by increasing their cash holdings—which, however, no one can accomplish without, to the same extent, decreasing the cash holdings of some other bank.

What is necessary is to establish a system whereby this public method of estimating the strength of banks will be changed from measuring their solidity by the amount of lawful money they carry, to basing their estimate on the facilities possessed by the bank for promptly getting either lawful money, or a circulating medium that will, for all practical purposes, pass current in public estimation, as being as good as lawful money.

This, it is believed, could be accomplished by consolidating a sufficient amount of the lawful money reserve of the banks in a central institution which would deal directly with the banks. It would be necessary that such an institution should have the right to protect its own resources, and those of the banks for which it acts, by using a circulating medium protected by an adequate gold reserve, and covered by the commercial assets it would acquire from the banks against the circulation with which it supplies them.

That one institution with a sufficient number of branches scattered over the country would more effectually perform these functions than a greater number seems to us an inevitable conclusion. The entire country, divided into districts, could have proper representation on the central board of management, insuring that the interests of all sections would have equal and equitable consideration.

It would be quite practicable to meet the requirements of the various districts through properly equipped branches, even more efficiently than they could be met through separate regional institutions. The establishing of a number of such institutions would divide the consolidated cash reserves of the banks into as many different ownerships as there are separate institutions. As no individual bank can now increase its gold or lawful money without to the same extent decreasing the gold or lawful money of some other bank, so with these regional institutions no one of them could strengthen its cash reserves without drawing them from and depleting to the same extent the reserves of another.

On the other hand, one central institution with branches could distribute the gold or lawful money reserves over the country, as circumstances might call for, without change of ownership. The money would belong to the same institution, irrespective of where it might be located or what branch had custody of it. Chicago could be supplied with money from New York without publicly attracting attention to the fact that New York's reserves had decreased and Chicago's had increased by the transaction. The published statement of the one institution would simply show that it owned so much more gold in Chicago and so much less in New York, while its percentage of cash reserve money on hand to total liabilities would not necessarily be changed at all.

This would not be the case if the Chicago institutions were entirely separate and distinct from the New York institutions. The Chicago institution's lawful money requirements could not be supplied by a withdrawal from the New York institutions without diminishing to an equal extent the amount of the latter's lawful money on hand. In times of financial stress, when each regional institution would be husbanding its resources for the benefit of its own constituents, this might produce an undesirable and awkward situation, the interests of the various sections of the country being at variance.

Such a condition would be intensified in direct ratio to the number of regional institutions established.

A very practical reason why it would be wiser to start with not more than 5 Federal reserve banks is that the reserve bank organization committee might find it difficult, if not impossible, to comply with the requirement that it should organize not less than 12. It might be fairly assumed that few, if any, of the State banking institutions would immediately after the passage of the act voluntarily subscribe for their proportionate amount of the capital stock of the Federal reserve bank and contribute their quota of the required reserve deposits to be placed in these banks. It would seem that business prudence and conservatism would cause them to postpone action until the Federal reserve banks are organized, are doing business, and are able to demonstrate the advantages to be derived from being connected with them.

If this is a reasonable assumption in regard to the probable action of the State banking institutions the reserve bank organization committee would have to rely exclusively on the national banks, under the more or less compulsory obligation imposed on them, under the Federal reserve act, requiring them, within 12 months, to contribute the necessary capital and the minimum reserve deposit, or accept one of the alternatives of dissolution, or continuing their business under State charters. Should the subscriptions to the capital stock of Federal reserve banks be thus restricted, it would be necessary that practically all national banks should remain in the system and subscribe for it. It is stipulated in the act, that there shall not be less than 12 Federal reserve banks, with a minimum capital of $5,000,000 each, which calls for a minimum aggregate subscription of $60,000,000. It is, however, evident that in the larger districts much more than the minimum capital would be necessary. The geographic division of the country adopted in the comptroller's statement of June 4, 1913, discloses that the following would be the regional contributions on account of capital:

New England States	$10,000,000
Eastern States	33,000,000
Southern States	17,000,000
Mid-West States	28,000,000
Western States	7,000,000
Pacific States	10,000,000

These amounts are exactly 10 per cent on the capital of these different districts, the total being $105,000,000.

Senator BRISTOW. Have you got that figured out by States?

Mr. FORGAN. No; by districts. I took them from the comptroller's report.

Senator REED. You follow the same line and groups as the Comptroller of the Currency, do you?

Mr. FORGAN. Yes, sir; the statement of the Comptroller of the Currency shows these figures.

Senator BRISTOW. Would it be convenient for you to formulate an estimate by States and submit that as a part of your remarks?

Mr. FORGAN. I could do it; yes, sir.

The CHAIRMAN. I will call the attention of the Senator from Kansas to the fact that the document which I gave him gives the entire record of each State in every particular, including the reserves, and all their capital stock.

Senator NELSON. I think the report of the Comptroller of the Currency groups them in the same way.

The CHAIRMAN. It is given both ways, individually and by groups.

Senator NELSON. Individually and by groups?

Mr. FORGAN. Yes, sir; individually and by groups.

Senator NELSON. If you will examine that statement you will find that it has what you desire.

Mr. FORGAN. A Federal reserve bank, therefore, could not be capitalized for less, in our opinion, than the following minimum amounts:

Federal reserve bank of New York	$25,000,000
Federal reserve bank of Chicago	20,000,000
Federal reserve bank of St. Louis	15,000,000
Federal reserve bank of Boston	10,000,000
Federal reserve bank of San Francisco	10,000,000
Federal reserve bank of New Orleans	10,000,000
Federal reserve bank of Philadelphia	10,000,000

And there would be five others in different parts of the country, at $5,000,000 each, making $25,000,000, and requiring a total of $125,000,000. It would thus require $20,000,000 more than would be provided if every national bank should become a subscriber.

The chairman of our currency commission, Mr. Hepburn, of New York, who presided at our conference, in his opening address stated the practical reasons for not having such a number of Federal reserve banks so clearly and forcibly that I will, even at the risk of some repetition, conclude what I have to say on this branch of the subject by quoting him. He said:

> The measure recognizes and adopts the principles of a central bank. Indeed, if it works out as the sponsors of the law hope, it will make all incorporated banks together joint owners of a central dominating power. Why, then, should not the principle, once recognized, be correctly applied? Why should not the law create one central bank, which should have branches wherever there is commercial need for them? Such a plan would be simpler, less cumbersome, more certain in operation, and far more efficient. There would then be no need to give the Federal reserve board authority to direct one section of the country to loan money to another, for the central authority would then control all the deposits and all the loans, and they would make loans to those sections of the country where most needed. There would then be no need to authorize the apportionment of United States Treasury deposits to different sections of the country. Those deposits would thus be in one central bank and would flow naturally to that section of the country which needed them.
>
> As matters stand to-day, whenever stringency in the money market exists our 25,000 banks begin competing with one another in an effort to strengthen their cash reserves. In doing so, they intensify the stringency and aggravate the trouble. The tendency of individual banks to strengthen their position is natural and inevitable.
>
> In reviewing the proposed legislation, one of the most natural questions, then, is whether the establishment of these regional reserve banks will remedy or aggravate that condition. Will there not naturally and inevitably be competition between the regional reserve banks, competition between the 12 sections of the country, and will we not in the end have competition for cash holdings between individual banks added to the competition of section against section, reserve bank against reserve bank?
>
> The framers of the measure evidently recognize that danger and seek to palliate it by giving the Federal reserve board authority to force one reserve bank to loan to another. Under the conditions that would exist would not the exercise of that authority fail to accomplish the just distribution of funds? Is there not strong probability that in exercising that authority factors would be created that would endanger the smooth working and permanency of the whole plan?
>
> With a single central reserve bank with branches reserve money of all the branches deposited with that central institution would count in the aggregate, no matter with which branch it was deposited or through which branch it was loaned. With such a single central bank the controlling board might place its reserves in the section of the country where most needed. This shifting of funds would be accomplished without ostentation and without notoriety; whereas if the Federal reserve board should require, as it might do, under this proposed law, one Federal reserve bank to loan money to another Federal reserve bank, that could not be done without attracting attention to the borrowing locality in a way that would operate to the prejudice of that locality. On the other hand, how simply and easily and naturally this apportionment of funds would be made to fit the requirements of different localities through one central bank with branches.

Gentlemen of the committee, I thank you very much. That is all that we desire to say upon that branch of the subject.

The CHAIRMAN. Who is the next speaker you would like to present, Mr. Forgan?

Mr. FORGAN. Mr. Wexler.

The CHAIRMAN. Mr. Sol. Wexler, of New Orleans, La.

Senator REED. Mr. Chairman——

The CHAIRMAN. The Senator from Missouri.

Senator REED. May I ask a question here? I notice a statement there in your remarks, Mr. Forgan, I think it was in the quotation

which you were making, to the effect that if we had five or more reserve banks they would ultimately come under one control—at least, that is the way I understood it. Will you kindly refer us to that sentence again?

Mr. FORGAN. That would ultimately come under one control?

Senator REED. I thought there was such a statement in what you quoted.

Mr. FORGAN. I think not, sir.

Senator NELSON. I understood it to mean "practically" under one control.

Mr. FORGAN. Oh, that was at the beginning.

Senator REED. That is what I mean—for all practical purposes; it was somewhere in that quotation which you read.

Mr. FORGAN. It was in the quotation of Mr. A. Barton Hepburn's remarks, yes; just at the beginning of them, I think. It says:

> The measure recognizes and adopts the principles of a central bank. Indeed, if it works out as the sponsors of the law hope, it will make all incorporated banks together joint owners of a central dominating power.

Senator REED. Well, Mr. Forgan, what do you understand that to mean?

Mr. FORGAN. I understand it to mean that the Federal reserve board will be in control of whatever number of reserve banks were established, and that as the banks were the owners of the capital of all these reserve banks they would be owners of them and they would be under one central control.

Senator REED. Well, do you anticipate in the plan which the banks have outlined (I have not read it yet, having had no opportunity to do so), whom do you propose to have constitute this central controlling power, to which the paragraph you have just read refers?

Mr. FORGAN. Would you allow that question to stand until we come to it? There is a gentleman here who will address the committee on our behalf on that one special subject.

Senator NELSON. That is another branch of the discussion.

Mr. FORGAN. Yes; that is a subject upon which there is another gentleman here who will address you.

Senator REED. I did not intend to argue the matter. I was merely trying to get at the meaning of this phrase which you read.

Mr. FORGAN. Yes, sir.

Senator REED. Whether it means that these 12 reserve banks would, in the end, be controlled, for all practical purposes, by a central dominating power, and that power a bankers' power; or whether it means that it would be under——

Mr. FORGAN (interposing). No; the banks would have merely a representation on the board.

Senator REED (continuing). Or whether it would be controlled by the Government.

Mr. FORGAN. Well, in this bill—when we come to that question—we ask for a minority representation; that is, if there are to be seven members of the board, we ask a representation of three out of the seven.

Senator NELSON. But, Mr. Forgan, as I understand, without reference to the composition of that board, whether it remains as it is now in the bill or is modified as you suggest, this statement

which you have quoted is based upon the fact that the board in any event under this bill would have control of the entire system?

Mr. FORGAN. Yes, sir.

Senator NELSON. And if money were short in one regional bank it could be transferred to the other, and vice versa?

Mr. FORGAN. Yes, sir.

Senator NELSON. Is that not what you mean by that statement?

Mr. FORGAN. Yes, sir.

Senator NELSON. I thought that was what Mr. Forgan meant.

Mr FORGAN. And when we come to it in these hearings it will be seen that our recommendation is that we should have a minority representation on that board.

Senator REED. Well, does that suggestion that you have just read to us, the second time at my request, embrace the idea merely of the transfer of surpluses from one of the central banks to another under the guiding hand of whoever has been selected to constitute the central board, or does that expression mean something more than that, that after all there would be a central dominating force, and that dividing the system into 12 parts does not much change it from what it would be operating as one integer—as one thing?

Mr. FORGAN. Well, if the bankers were to get the representation which they want—because they think they are entitled to it, in consequence of their ownership—of course the bankers would have a minority representation on that board; and if we only had one reserve bank (which we argue for) that would work itself out automatically. The question would never be before the board of the interests of one part of the country as antagonistic to those of another part, because the duty of the board would be to consider the necessities of all the country from time to time as they arose and to meet the necessities as they arose.

Senator REED. Perhaps I can put my question in a different form, which has been suggested to me by the Senator to my right [Senator Weeks]: Do you not mean whether there is 1 bank or 12 regional banks, that after all they will inevitably come under one central control?

Mr. FORGAN. Yes, sir; that is the meaning, decidedly the meaning; yes, sir.

Senator NELSON. And you mean that, without reference to the fact whether the board is as constituted in the bill, or with the additions which have been suggested?

Mr. FORGAN. In the bill, or with the additions.

Senator SHAFROTH. Mr. Forgan, the representation on the Federal reserve board which your convention has recommended, does it mean that the persons representing that interest shall be engaged in banking?

Mr. FORGAN. Yes, sir; that it be left to the banks to appoint them, and of course they would be likely to appoint bankers from among themselves.

Senator SHAFROTH. And you ask for three members upon the board?

Mr. FORGAN. Three; yes, sir.

Senator SHAFROTH. Is it not a fact, Mr. Forgan, that the Bank of England has no banker upon its board of directors?

Mr. FORGAN. Well, it has no representative of any chartered bank.

Senator SHAFROTH. Is that not also true of all of the European banks that are central banks, namely, that they have no members of the banking fraternity that are in active business upon the board?

Mr. FORGAN. It has the representatives of some of the largest private banking firms in the world on the board of the Bank of England.

Senator SHAFROTH. Well, are there any on the Bank of France or the Bank of England?

Mr. FORGAN. They are on the Bank of England.

Senator SHAFROTH. Well, I understand not.

Mr. FORGAN. Well, I can assure you that there are; there are six of them that are representatives now of—they are called "merchants" but they are representatives of the largest private banking firms there are in the world.

Senator SHAFROTH. The Bank of England, as I understand it, has as directors only those who have £500 invested stock and have a mercantile business of $100,000; they must have that much in the mercantile business before they can become directors of the Bank of England?

Mr. FORGAN. There is nothing in the law under which the Bank of England is established to prevent any representative of another incorporated bank being on the board.

Senator SHAFROTH. Well, is it a fact?

Mr. FORGAN. It is only the practice.

Senator SHAFROTH. Yes. Well, the practice has been that they should not be on the board, has it not?

Mr. FORGAN. That the representatives of an incorporated bank should not be on the board; that is the practice.

Senator CRAWFORD. Mr. Forgan, is not the reason for that because the Bank of England does not want entangling alliances with any other bank? It uses its discount——

Mr. FORGAN (interposing). Yes, sir.

Senator CRAWFORD (continuing). It uses its discount power as a check on them, and therefore does not want to be involved?

Mr. FORGAN. Yes, sir; and it does not want a member of the board of a bank that is going to offer a bill for discount to pass upon that bill.

Senator NELSON. Mr. Chairman, I want to suggest that we go into this question when the gentleman who has come here with the committee of bankers to take up that branch of the bill is making his statement; that would seem to be the more logical course to pursue.

Senator POMERENE. Mr. Chairman, I want to make a motion before we adjourn, and that is that when the time arrives for the committee to interrogate the witnesses we proceed alternately to question them: First, the chairman examining the witness; and next, the next ranking member on one side of table, and then the ranking member on the other side, and so on, until all the members of the committee have concluded the questions they desire to ask. It seems to me that this method of questioning the witness is entirely unfair to the witness, and it is very unfair to the committee.

(Whereupon the committee took a recess of 10 minutes, after which the following proceedings were had:)

The CHAIRMAN. The Senator from Colorado would like to ask you one or two questions.

Mr. FORGAN. Yes, sir.

Senator SHAFROTH. Is it not a fact, Mr. Forgan, that the reason bankers are not upon the board of directors of these central European banks, is because the power of those banks is to raise or lower the rate of discount, and that would give an advantage to the banker who happened to be upon the board to have this knowledge in advance, and that he might use it to the advantage of his banking institution; and is not that arrangement satisfactory to all the banks, so that one bank will have no advantage over another bank?

Mr. FORGAN. I would have to be frank with you. I could not answer that question. I am not sufficiently familiar with the working of the European banks to know. I would have to draw upon my imagination for it. I do not know.

Senator SHAFROTH. From what I have read of the workings of those European central banks, that have the right of lowering or raising the rate of discount, that is the reason they do not permit a banker to be upon the board, not but what they could get great knowledge from him, but because of his interest in a banking institution, which could be used to his bank's advantage, in the event the discount was raised or lowered. We all know that in raising the discount you produce a little bonus and bonds rise and stocks rise, and if the knowledge is given to a banker in advance you can readily see that he could use it to the advantage of his bank, and it is on that account that the bankers throughout the whole Empire or throughout the nation first insist that no banker should be on there, unless he is a retired banker.

Mr. FORGAN. That may be so, sir.

Senator SHAFROTH. You are not familiar with it?

Mr. FORGAN. No, sir; I am not sufficiently familiar with it to give an answer.

Senator HITCHCOCK. Mr. Forgan, I would like to ask you why a central bank should be limited to one institution in this country any more than for continental Europe? Would not the 12 regional banks in this country correspond to the 12 national banks of the continent of Europe?

Mr. FORGAN. We expect the banks of continental Europe to compete with each other, and they are in active competition with each other; we do not expect in this country to establish competing districts one with the other.

Senator HITCHCOCK. Is it not true that the banks of Europe cooperate with each other?

Mr. FORGAN. Not to any such extent as to influence them in any way in the management of their banks.

The CHAIRMAN. The witness will suspend. There is another call of the Senate and voting is going on and we will have to suspend.

(Whereupon the committee took a short recess, after which the following proceedings were had:)

Senator POMERENE. I desire, before the witness proceeds, to renew my motion to the effect that after the witness has made his statement, that if there is any cross-examination desired the chairman

first cross-examine and then that we alternate from side to side of the table in the order of the seniority of Senators on the committee.

The CHAIRMAN. Gentlemen of the committee, you have heard the motion proposing that the cross-examination of witnesses shall proceed in order of seniority of the members on the committee, so as to prevent confusion. What is your pleasure?

(The motion was carried.)

Mr. FORGAN. The next material change we have to suggest occurs on page 6, section 2.

Senator HITCHCOCK. Before you go to that, Mr. Forgan, I would like to continue. I had merely got started on that question which I commenced to ask you. I understood you to make an argument that it would not be possible or desirable for a number of independent regional banks to exist in the United States.

Mr. FORGAN. I did not say it was not possible for them to exist.

Senator HITCHCOCK. Not desirable?

Mr. FORGAN. Not desirable.

Senator HITCHCOCK. That the result of having them more or less independent would be that they would compete with each other in gathering reserves as independent banks now compete with each other?

Mr. FORGAN. Yes, sir.

Senator HITCHCOCK. And I asked you whether the condition in Europe did not controvert that idea.

Mr. FORGAN. I think not.

Senator HITCHCOCK. The Bank of England and the Bank of France and the Reichsbank and the other banks of European countries perform a similar function; that implies the reserves, and they afford currency to the country and to the banks that operate with them, and do they not also cooperate with each other in emergencies?

Mr. FORGAN. I think they very violently compete with each other for reserve money—very strongly compete with each other.

Senator HITCHCOCK. Compete to the extent of slightly raising or lowering the rate of interest. They do not do that in concert, so that where the money is needed most the money goes most?

Mr. FORGAN. You do not think they do it in concert. We have some that do.

Senator HITCHCOCK. Has it not been a fact that the Bank of France has come to the relief of the Bank of England in emergencies?

Mr. FORGAN. Oh, yes; at least they did at the time of the Baring Bros.' failure.

Senator HITCHCOCK. Recently in Europe, when credits were contracted in Berlin, did not the Bank of France arrange to have credit extended through the Swiss bank to the German bank?

Mr. FORGAN. I am not aware of that transaction, but I am aware of the fact that the French as a whole did not help Germany very much, but the very reverse, by withdrawing money from Germany.

Senator HITCHCOCK. But did she not at the same time place that money in Switzerland so that Switzerland might extend the credit to the Berlin banks?

Mr. FORGAN. I should want to be clearly and fully posted on all these facts about that before I could express an opinion on it, and I am not so informed.

Senator HITCHCOCK. Do you express it as an opinion that the independence between the great banks of Europe is detrimental to the business of the world?

Mr. FORGAN. Detrimental to the business of the world?

Senator HITCHCOCK. Yes.

Mr. FORGAN. Oh, no; but they are different countries, different sets of citizens, and different peoples altogether, that they represent.

Senator HITCHCOCK. Business flows readily between them, they are in very close contact, and both France and Germany together are not as large as the United States in territory.

Mr. FORGAN. I do not see any analogy between them at all and the United States.

Senator NELSON. If you will allow me, Senator, to say there is one great difference. Our national banks are banks of issue, and theirs are not, outside of these big national banks—outside of the central bank. They are just banks of discount and deposit.

Senator HITCHCOCK. I am now speaking to the point that we now propose to create these regional reserve banks, which are to perform some of the functions toward the banks in their territory that are now performed by the great banks of Europe to the banks in their own territory.

Mr. FORGAN. Even if they did that, all that I have said would be true—they would enter into competition and it would not be necessary that they should. They could serve the whole country much better if the central organization had the interest of the whole country before them in all the transactions as they came before them, and loaned the money as it was wanted—placed the money where it was wanted in this country.

Senator HITCHCOCK. Europe is generally held up to us as a model, and in Europe we have these great banks, in what you might term competition with each other, and yet it works satisfactorily.

Mr. FORGAN. That is between nations. If we had one central reserve bank, it would be infinitely stronger to compete with the other banks of the world, as compared to 12; that is an argument in favor of having the one. That is the way that it appears to my mind.

The CHAIRMAN. Before leaving that point, under the rule adopted by the committee, it will be in order for the members, if they desire, to question the witness in the order of their seniority. Senator O'Gorman? Senator Reed?

Senator REED. I may want to ask something later on, but I will waive it now.

Senator POMERENE. Just one question, which I wanted to ask. I take it from what you said that you prefer one central bank rather than one or more regional banks?

Mr. FORGAN. Yes, sir; with branches, wherever necessary.

Senator POMERENE. Waiving, for the time being, the method of appointment of this reserve board, if you had the one central bank, of course it would be controlled by the one board?

Mr. FORGAN. Yes, sir.

Senator POMERENE. And if you had the 12 regional banks, the 12 regional banks would be under the control of this same board. Now, I would like you to point out the difference between the one bank, under the control of one board, and 12 regional banks under the control of one board.

Mr. FORGAN. The first thing that appeals to me, in answering that question, is in regard to the reserves of the banks. The reserves would belong to one institution—the gold would belong to one institution, if it was one institution with, I should say, 12 branches; and therefore it might control these reserves better. Take the transfer of money from New York to Chicago, and from Chicago to San Francisco, and from San Francisco to New Orleans, without the change of ownership, as I have already explained. Wherever that money was lying, it would belong to one institution, and the same percentage of gold to total liabilities assumed would exist, whereas if they got into competition with each other, one might be down below its reserves, and the other above, and in that way you get competition among them for the reserve money of the country, which, if it was all in one reservoir—I use this as an illustration—it would not be all in one reservoir, but it would be in a number of reservoirs owned by the same institution, and it would serve the purpose of the whole country.

Senator POMERENE. Mr. Forgan, as I understand this scheme, where you have the 12 or more regional banks, the plan of the bill is that this reserve board will have the right to compel one regional bank to loan to another regional bank as the necessities of the occasion should require, and that they shall fix the rate of interest. Now, then, is it not practically one board in control of 12 reservoirs, and is not the difference, in fact, in the number rather than any material difference?

Mr. FORGAN. No; there is a very serious material difference that I have been trying to explain. I do not think I can put it any plainer than I have put it in what I have already said.

Senator O'GORMAN. There is this difference, Mr. Forgan. If you have 12 reserves, as contemplated in this bill, you have 12 separate and distinct organizations, and while they are under the control of a central reserve board, it is quite natural that the officials in those several separate organizations will have special interests in their own localities, and while they would have to submit under the provisions of this bill to the final decisions of the central board in Washington, there would doubtless be many instances where they would bear protest, feeling that their own localities were being prejudiced by the action of the central board?

Mr. FORGAN. Yes, sir.

Senator O'GORMAN. While, on the other hand, if you have a central organization, it would not be required to consult another organization, but simply make its direction, which would have to be respected by its branch.

Mr. FORGAN. That is very well expressed, sir. I wish I was as ready with my answers to give that explanation; unfortunately, I am not. I am always afraid of committing myself to something that I do not understand.

The CHAIRMAN. Are there any other members of the committee who desire to ask Mr. Forgan any questions about that first subject before we leave it?

Senator REED. Are there any advantages, to your mind, at all in having 12 reserve banks with the organizations provided in the bill; that is, separate organizations?

Mr. FORGAN. I do not know of any.

Senator REED. And you think that, in any event, the 12 organizations would all come under one control in the end, just as one bank is under one control? I take it, therefore, that you think these 12 organizations are in the nature of unnecessary machinery.

Mr. FORGAN. I think so; yes, sir.

Senator NELSON. If you are through, Senator Reed, I will ask a question. Would it not lead to this, in practical operation, Mr. Forgan, that, in the first place, there would be some friction in the matter of distribution of Government funds among the several reserve banks? One might claim that it got less than its share.

Mr. FORGAN. Yes, sir.

Senator NELSON. Then, would not this difficulty arise: Suppose that a reserve bank at Minneapolis should be well supplied with funds, and suppose the reserve bank at New Orleans lacks funds, and suppose the board should order a transfer of funds directly or indirectly from Minneapolis to New Orleans, would not it lead to some friction?

Mr. FORGAN. It would lead to a great deal of friction.

Senator NELSON. Would not the Minneapolis reserve bank feel they were discriminated against and that it was not fair to transfer their funds to New Orleans?

Mr. FORGAN. Yes, sir. And, to follow that idea up, the Minneapolis banks might at that time be compelling their customers to dispose of their wheat in order to turn it into money for local necessities, while down in New Orleans they might be holding their cotton and borrowing the money for that purpose, and they would be enabled to carry their cotton, while Minneapolis would have to sacrifice their wheat.

Senator O'GORMAN. Mr. Forgan, I would like to ask one more question: If the central board is to be controlled entirely by Government officials, would the banking interests prefer to have a central organization without the reserve banks, or would they prefer to have reserve banks plus the central bank, assuming that in any event the central organization would be controlled entirely by appointees of the President?

Mr. FORGAN. I think they would rather have a central organization even in that case.

Senator O'GORMAN. Even if it be a Government-controlled organization?

Mr. FORGAN. Yes, sir.

Senator CRAWFORD. May I ask a question?

The CHAIRMAN. The Senator from South Dakota desires to ask a question.

Senator CRAWFORD. Mr. Forgan, I would like your opinion as to whether or not, if the subscriptions were optional on the part of the banks instead of being coercive, there would, in your judgment, be a doubt as to whether a sufficient number of banks would voluntarily subscribe to this stock to furnish the amount of capital required here in this system?

Mr. FORGAN. Well, I think, if the bill was made attractive enough to the banks, that sufficient national banks and the State banks would also come in.

Senator CRAWFORD. I mean that if it is allowed to become a law in its present form, with this mandatory provision changed so that it would be optional, would, in your opinion, enough national banks

voluntarily subscribe or banks of any sort voluntarily subscribe to yield the necessary amount of capital?

Mr. FORGAN. I am sorry to say that I do not believe they would voluntarily supply sufficient capital.

Senator CRAWFORD. Well, just one other question. For instance, in the community which I represent there are no banks except small country banks, it being a purely agricultural State, with no large cities and no large commercial transactions such as you have in manufacturing and commercial centers, the capital of these banks running from $25,000 to $100,000. They loan their money to a constituency that borrows for a longer period than this class of paper called "prime" paper and "commercial" paper. Do you think it would cripple this bill and prevent the raising of sufficient capital if an exception was made in it under which those small country banks might have the option to subscribe or not to subscribe, and would it not then be possible to secure the capital by simply making the exception in their cases?

Mr. FORGAN. So that the banks in the larger cities would subscribe enough capital?

Senator CRAWFORD. The little banks who can not use the rediscount provisions of this bill or get any benefit of that—do you think it would obstruct the success of the bill to make an exception?

Mr. FORGAN. I will answer to this extent, at least, that I think the greatest objection to the bill and the banks that are least likely to come into it are small country banks, for the reasons that you have given.

Senator CRAWFORD. What benefit would the little country banks, who do not deal in this kind of paper, get from these reserve banks?

Mr. FORGAN. Practically none.

Senator CRAWFORD. Do you think that it is fair to compel them to furnish capital for banks that they can not use or from which they can get no benefit?

Mr. FORGAN. I think not.

The CHAIRMAN. Are there any other questions by members of the committee?

Senator REED. Mr. Forgan, you used the expression in your advocacy of one bank, "one bank authorized to issue circulating medium protected by an adequate gold reserve"?

Mr. FORGAN. Yes, sir.

Senator REED. I take from that that you think this one central bank that you advocate should have authority and a right to issue a circulating medium?

Mr. FORGAN. Yes, sir.

Senator REED. Would you retire the notes which the Government now has out?

Mr. FORGAN. That is a subject that another gentleman is to address you on.

Senator REED. Unfortunately, I am afraid you are going to divide yourselves up——

Mr. FORGAN. We take these subjects up as they come in the bill. It would require quite a long explanation to go into that; there is a gentleman here who is going to do it for you.

Senator REED. Would you mind saying what you think is an adequate reserve?

Mr. FORGAN. We recommend in the bill, when we come to it, 40 per cent.

Senator REED. Forty per cent?

Mr. FORGAN. Yes, sir.

Senator REED. Thank you.

Mr. FORGAN. The next material change——

Senator WEEKS. I think this may come in at this point as well as any other. It is well known that the administration desires to have public control of such reserve banks as are organized, and bankers who are furnishing the capital to the reserve banks think that they should be represented in the reserve board. Have you considered whether it would be a desirable and fair method of adjustment of that difference for the banks of the country who are furnishing the capital to select a list of 50 or 100 men, we will say, those who have no direct connection with banks at the time, and submit that list to the President, and he appoint the reserve board from that list?

Mr. FORGAN. That would be a very good modification of it.

Senator WEEKS. If you are not prepared to answer that finally, I wish you would think of it seriously, because I would like to have you make a definite reply to it to-morrow or the next day or some other time.

Senator POMERENE. May I ask a question in that connection, along the same lines. Senator Weeks's thought is evidently and Mr. Forgan's thought is that the bankers should have the right to suggest the names of the members of this reserve board. What reason is there for giving that power to the bankers in connection with the naming of this reserve board that would not apply with equal force to the suggestion that the railroad companies should suggest the names of the persons from whom the Interstate Commerce Commission were to be selected?

Mr. FORGAN. The railroad companies do not part with the initiative control of their business, as we would have to do. We supply the capital. We own all the capital in the banks, and own all the deposits in the banks, with the exception of the Government's deposits. It is our money, and we believe it to be a well-recognized principle that the owners of property are entitled to some say in the management of it.

Senator POMERENE. The railroads own the railroads?

Mr. FORGAN. Yes.

Senator POMERENE. And all the capital invested. Why should not they fix the rules for transportation?

Mr. FORGAN. I do not really know why they should not.

Senator NELSON. I want to call your attention to the fact that the railroads in the first instance initiate and fix the rate, and it is simply subject to review by the board—the Interstate Commerce Commission.

Senator POMERENE. But the board is not named or even suggested by the railroad companies.

Senator NELSON. No; but the powers are different. One is simply a board of review to review the action of the railroad companies in fixing the rates, in the first instance.

Senator O'GORMAN. Senator, you might add that under our interstate regulations there is no provision that the United States Government gets any part of the earnings of the railroads, as is provided in this bill as introduced in the House.

Senator REED. And he may further suggest that the Government is not required to deposit any of its money with the railroad companies, from time to time, in order to enable them to do business.

Senator HITCHCOCK. If suggestions are in order, I would suggest there is an appeal from the decisions of the Interstate Commerce Commission, and there is no appeal from this board under this scheme.

I would like to ask Mr. Forgan, before he stops, whether he has some one who is going to discuss the subject of furnishing this capital?

Mr. FORGAN. Yes, sir.

Senator NELSON. He has a man elected for every one of these subjects, and we are getting ahead of him.

Mr. FORGAN. Every one of these subjects has been arranged for, and you want me to take the powder away from these gentlemen, and I do not want to do it.

Senator HITCHCOCK. I want to ask some questions on that subject, but I will defer them for the present.

Senator SHAFROTH. Mr. Forgan, do you think that inasmuch as a banker representing a banking institution, being on this central board in Washington, which has the power of lowering or raising the discount, that it would give him an advantage, and his banking institution an advantage to know in advance that the rate would be increased or decreased?

Mr. FORGAN. I do not think the increasing or decreasing of the rate of the central institution would have much effect on the business of the other banks at all.

Senator SHAFROTH. Is it not a fact that in the European banks where the rate is increased or decreased there is a corresponding rise or decline in the market of all securities nearly, and if that is true, does it not give an advantage to the bank which is represented by that man, by which that bank can obtain advantages over other banks——

Mr. FORGAN. I think not.

Senator SHAFROTH (continuing). Dealing in bonds or stocks?

Mr. FORGAN. I do not think so, sir. I do not see any advantage in it. I would not consider it any advantage.

The CHAIRMAN. You may proceed, Mr. Forgan.

Mr. FORGAN. The next material change we have to suggest occurs on page 6 of our report, section 2, and I will ask Mr. Sol. Wexler, vice president of the Whitney Central National Bank, of New Orleans, La., to explain to you our reason for reducing the subscription to the capital of the Federal reserve banks from 20 per cent of the unimpaired capital of the subscribing banks to 10 per cent, and requiring one-half of such subscription to be paid in cash and one-half subject to call upon 60 days' previous notice.

Mr. Wexler will also explain the change which occurs in section 4, at the bottom of page 8, and give you our reasons for believing that the Federal reserve board should not have power to remove any director of class B in any Federal reserve bank, and why the Federal reserve agent should not also be the chairman of the board of directors of the Federal reserve banks.

Senator WEEKS. Mr. Chairman, before Mr. Forgan takes his seat, I want to ask him a question.

The CHAIRMAN. Just a moment. Senator Weeks, of Massachusetts, would like to ask you a question.

Senator WEEKS. I would like to ask him a question about what he has been discussing. Mr. Forgan, you stated, in commencing, that certain State banking associations and others were invited to meet the currency committee of the American Bankers' Association at Chicago?

Mr. FORGAN. Yes, sir.

Senator WEEKS. Did all of the associations invited accept the invitation and send representatives?

Mr. FORGAN. I understand there were representatives there of 37 States, and 117 cities or towns and clearing houses.

Senator WEEKS. They came from all sections of the United States?

Mr. FORGAN. From all sections of the United States. There is a list of them to be found at the end of the report.

Senator WEEKS. Was the report made a unanimous one?

Mr. FORGAN. Absolutely.

Senator WEEKS. Was there any dissent whatever to that report?

Mr. FORGAN. No dissent whatever.

Senator WEEKS. Do you know that any members there were opposed to any conclusions to which you came?

Mr. FORGAN. No, sir; they were asked if there were any they should stand up. After the vote had been taken and decided in the affirmative, in order to make sure that there was no dissenting voice, the chairman asked anyone that did not approve of the action to rise, and he waited for quite a while and no one arose.

Senator WEEKS. Then, we may assume that this is the unanimous judgment of the representatives of the different banking associations in the United States?

Mr. FORGAN. I think so, sir. We present it as such.

In further answer to Senator Weeks all these changes were voted on as they occurred, and as we are bringing them before you now, and there was not a dissenting vote in connection with any of the sections; and then after all had been passed upon separately it was put to a vote as a whole and there was no dissent.

STATEMENT OF SOL. WEXLER, VICE PRESIDENT WHITNEY CENTRAL NATIONAL BANK, NEW ORLEANS, LA.

Mr. WEXLER. Mr. Chairman and gentlemen of the committee, coming as I do from an entirely different section from the gentleman who has just spoken to you, and our section of the country doing somewhat a different class of business, being more particularly agricultural than that represented by Mr. Forgan, before passing on to the particular matters which have been given me for attention I would like, with your permission, to say just a word on a matter which Mr. Forgan has discussed with you. There were one or two points raised which I feel have not been quite sufficiently cleared in the minds of the committee. One very important one was the question asked by the gentleman as to whether or not the fact that a banker was a member of the Federal reserve board might not give his bank an advantage over other banks in being aware of any change in the discount rate in advance.

Senator SHAFROTH. Yes, sir.

Mr. WEXLER. It has never been contemplated at any time that any man interested in any bank in the United States should become a

member of the board of directors of the Federal reserve board. We admit that there might be an advantage in that, but any banker who might be appointed on such board would necessarily have to sever his connection with any banking institution with which he might have been theretofore connected. That, however, would be no good reason why a banker of tried experience, who has been successful in his banking career, should not be a member of the Federal reserve board, because he is distinctly better qualified to serve the banking interests of the country and the people at large by reason of that experience than would a man who has never had any banking experience. The banking business, gentlemen, is a profession. It is not a business in which any man can engage simply by renting a place and having a counter and putting some money in a safe. It is a profession. It must be learned by many years of practical experience, many hard knocks, and frequently many severe losses before the necessary experience has been acquired; and the board of directors of the bank of which I am vice president would not elect as its executive officer a merchant, or a farmer, or an engineer, or a man in any other line of business as the head of that bank to run it, and no more should the Federal reserve board be composed entirely of men without necessary banking experience. They should be men who have been tried long in the business; who have proven their success.

Senator SHAFROTH. There is no question about that, and I understood Mr. Forgan to say that there should be a certain number of these bankers.

Mr. WEXLER. Precisely.

Senator SHAFROTH. All I wanted to direct attention to is this, that in European banks it is not that way, and it should not be in this. A banker to be a member of this board should retire.

Mr. WEXLER. He would have to retire. In regard to the European banks, the personnel of the board of the Bank of England is made up of what is known as private bankers, the largest banking business in England is done by private bankers. They are bankers in thorough touch with international banking all over the world. They are accepting bankers of the world who furnish the credit for the importation and exportation of merchandise. Every man should have had a peculiar training for being upon the board of the bank, such as the Bank of England, which is dealing with the vast colonial possessions of England and with the whole world at large.

Senator SHAFROTH. Just a moment. "Peculiar training" as to what?

Mr. WEXLER. As merchant bankers.

The CHAIRMAN. Just a moment, Mr. Wexler. You do not understand that this bill precludes a man from this board who has had training and experience as a banker?

Mr. WEXLER. No, I do not; but I do not think that quite sufficient provision has been made that there must be a number of men who have had that training. I think that is sine qua non to the success of the institution.

The next point that occurred to me: I recognize it——

Mr. FORGAN. Would you allow me a word? The idea occurred to me which did not occur when I was asked the question by the gentleman to the chairman's left, that this board is to devote all of its time to the Federal reserve board—to the management of the affairs of

these institutions—and they are to be paid what is supposed to be an adequate salary for their services. The directors of the Bank of England do not get salaries.

Senator SHAFROTH. No; but unless there is some provision that required them to dispose of their assets in a bank, they could still devote their time to it and be connected with the bank in the interests of the bank. That seems to me to be precluded if your theory as to directors or the members of this central board should prevail.

Mr. FORGAN. I agree with what Mr. Wexler has said, that they should be disassociated with other banks.

Mr. WEXLER. Entirely.

My attention has been called to the fact that in my remarks I might be discussing subjects that have been allotted to some other gentleman. So, I am going to proceed to the discussion of the subject which has been allotted to me.

We have to deal in connection with this subject with probably 24,000 to 25,000 banks eligible to membership in this system. Of this number some 17,000 are State banks, upon which no coercive nor compulsory measure will prevail to make them come into the organization. In order that any currency or banking scheme shall be a success, it is imperative that there shall be general participation and cooperation among the banks of the country. In order to have this general cooperation and participation there must be some distinct advantage to banks in coming into the system, or at least there must be no disadvantage to them in coming into it. That must be recognized by everyone at present here. Now, for the purpose of making the proposition more attractive, particularly to the smaller banks throughout the country, we have suggested that the capital requirement to be contributed by banks be reduced from 20 per cent of the capital of the respective banks to 10 per cent of the capital. We believe that if your bill is amended to that extent that quite a number more banks would come in than would come in if the requirement is 20 per cent.

We have understood that it is the opinion of the framers of the bill, and we concur in that opinion, that it will probably never be necessary to call for more than the first 10 per cent. That being the case, why is it necessary to intimidate this great number of banks by imposing upon them this additional possible liability? In many sections of the South and West—the sections of the country which are now under the most rapid development—the withdrawal of 20 per cent of the capital is looked upon by many as being quite a hardship, and while that argument may be met by the statement that these banks will have the discount privilege in the Federal reserve bank, and that they may fill this void created by borrowing the deficiency, but they have an additional liability by borrowing from the Federal reserve banks, and no bank feels nearly as much disposed to borrow money for the purpose of lending at it does to lend money out of its own resources. It is impossible to even approximate the amount of capital that will be furnished to the Federal reserve banks, whether under the 20 per cent requirement or the 10 per cent requirement, until we know how many of the suggestions which are being made by this committee here to-day are going to be adopted. From the expressions which I have had from a great many southern banks, without any influence whatever having been used upon them, most

of them entirely voluntary expressions on their part, I do not believe unless the greater portion of these amendments which we are suggesting be adopted, that many of them, particularly the State banks, will come into the system; and I fear very much that a great many national banks will go out of the national system and become State banks. Therefore, it is quite imperative that every one of these suggestions be given very serious consideration, and particularly this one requiring only an obligation of liability on the part of the contributing banks of 10 per cent. We have suggested that 5 per cent should be immediately paid in in cash, and the remaining 5 per cent subject to call of 60 days' notice.

If the bill is so amended that it will strike favorably that great number of banks throughout the country, it may never become necessary to call for more than the original 5 per cent, which would be a distinct advantage, as it would enable the bank to accumulate much more rapidly the 20 per cent surplus required under the bill; it would enable them to make a distribution of the surplus earnings of the various contributing banks over and above the dividends which you have named to be paid upon the stock, which in itself is not deemed to be adequate, but it would enable a larger distribution to the Government as its share of the profits to be applied to the retirement of the greenbacks and the national-bank notes.

If the bill is made so attractive that a great number of banks will come into the system, and only the first call of 5 per cent is found to be adequate, it will be a distinct advantage; if it is not adequate, then the other 5 per cent may be called upon 60 days' notice, and then the liability ceases; and there certainly can be no good reason for imposing this liability, which very few banks care to assume, when there is almost not the slightest shadow of a chance of its being called, yet it is a liability which every bank will have to recognize.

I have calculated that if all of the important suggestions which this committee is making should be adopted, that at least 80 per cent of the national banks and 50 per cent of the State banks and the trust companies would come into the system. If that were the case, 10 per cent would produce about $130,000,000 of capital, which, in my opinion, would be adequate.

The necessity for the larger capital of the Federal reserve banks does not exist to the same extent that it does for National and State banks, for the reason that capital of the National and State banks is fixed in their charters and can not be increased except by a vote of the stockholders, but the capital of these Federal reserve banks is movable, in the sense that as new banks are started over the country they may come into the system. There would be constantly increased capital of these Federal reserve banks, and under the provisions which you have the surplus must be built up to 20 per cent of the total capital and constantly maintained there, so that you will have a constantly increasing capital, if the bill is properly drawn, and a constantly increasing surplus.

I believe that the acceptance of this suggestion will add to instead of diminishing the amount of capital that will be furnished to the regional banks, by reason of the fact that a greater number of banks will come into the system, and it must be admitted that the greater the number of banks coming into the system the more efficient and more cohesive the bank will be. To my mind, these are reasons

sufficient to justify you in making the change which we have suggested on that point.

We next come to the provision of the bill, as drawn, that provides that the directors of class B, namely, those elected to represent the agricultural and commercial interests of the country may be removed by the Federal reserve board if it is found that they do not properly represent the agricultural and commercial interests. This provision is, in our opinion, fraught with considerable future embarrassment, if not possible danger. These particular directors, known as directors of class B, will be in constant fear of removal, and upon every loan upon which they will be called to vote they will naturally be influenced as to how the Federal reserve board will look upon their action, instead of being governed entirely by their sound judgment as to whether or not they should pass favorably or adversely upon the particular proposition, as it is presumed that they will want to hold their positions.

There can be but one guide to the action of a director of class B in voting upon a proposition, and that is his own honest opinion as to whether or not the loan is safe and sound and should be made. Now, let us presume that an agricultural loan is presented and he votes against it upon his honest conviction that such a loan should not be made, and that the bank presenting such a loan should make a complaint to the Federal reserve board. Who in the Federal reserve board shall pass upon whether or not this director has been in good faith in declining this credit? Credit itself is a very delicate matter. A man extending credit can not always give a distinct and definite reason why he declines.

The extending of credit is frequently a matter of intuition, what is commonly called a "hunch," and a man feeling that way frequently takes the negative and safer side of the proposition, without really being able often to give a definite reason why he has done so, and very often we find that those intuitions are very correct. In any event, I doubt very much if the Federal reserve board, unfamiliar with the local conditions, located many miles from the regional bank, which may have declined the particular proposition, and perhaps composed of a number of men untrained in the extending of credit—I doubt very much if they would be in a position to pass upon the motive of the particular director, and if his motive has been honest in declining a loan of that kind, even though he might have made a mistake, he certainly should not be subject to removal.

We take the position that as the directors of class A and of class B have been elected by the shareholders of the Federal reserve banks they should only be removed by these shareholders.

I am rather of the opinion that there is not any particular class of business that requires any special representation upon a board of that character. The bankers who are going to pass upon the loans presented to them by various banks are not going to pass upon loans made to themselves; they are not going to pass upon loans made to any bank in which they are interested, but they are going to pass upon loans made by other banks, to whom? To farmers, and merchants, and manufacturers, and others. Why should there exist any prejudice? Where is the necessity for a particular class of directors representing a particular class of borrowers? However, there is no objection to distinguishing these classes, but I

think there is a distinct objection to allowing them to be removed at the pleasure of the Federal reserve board.

My idea of the strongest function of the directors of class B is to keep in touch with the agricultural and commercial conditions of the various sections tributary to the particular regional banks, and to see to it that loans are not made when the conditions do not justify that loan, rather than to see that loans are made.

The law, furthermore, as written, provides that the agent of the Federal reserve board shall be the chairman of the board of directors of the Federal reserve bank to which he is assigned. The position as chairman of the board in many corporations is higher in authority than the position of president. He presides over meetings of boards of directors and upon him would therefore devolve the necessity of presenting to the board the various details of the business and matters coming before it for action.

As the agent of the Federal reserve board will not be the active manager of the bank, he will not be in position to properly act as the chairman of such a board. He will not be sufficiently familiar with the details.

Senator REED. Who will be the active manager?

Mr. WEXLER. The governor or president elected by the board, as is provided by the bill. Chairmen of boards of directors are either in active management of the institutions, or they are mere figureheads rewarded with the position for past services rendered; and it is practically a notice that they have passed their time of usefulness, except in an advisory capacity. In fact, the chairmanship of a board of directors in many corporations, particularly in banks, is the twilight, the retirement of that particular officer; it is the first step on the road to his effacement.

As I have said, as the Federal reserve agent will not be the responsible active manager of the bank nor an officer to be rewarded for past services, he should not be the chairman of the board, but should be what he really is intended for—the agent of the Federal reserve bank, its representative, its supervisor, to see that the bank is properly, safely, and economically administered, that it maintains the required reserve, that it obeys the law, and serves the public. It should be the mouthpiece of the Federal reserve board to the Federal reserve bank, and of the latter to the former.

But his position should never be one to create a conflict in authority or of prestige between himself and the president or governor. I am rather of the opinion that while he should be present at all meetings of the stockholders, directors, and committees, he should not vote. I do not think that he should bear any part of the responsibility of management. I think he should be outside of the management and there as the watchdog of the Federal reserve board, to see that the management does its duty. If he is a member of the board and votes upon what action may be taken, he is responsible in part for the management. I think it would be a good thing if he were present at all meetings without voting. It would keep him in absolute touch with what was going on and enable him to report it back to the Federal reserve board; in fact, his duties to be similar to those of the Comptroller of the Currency at the present time.

These, gentlemen, are the reasons for these suggestions which we have just discussed. There is no particular advantage to any bank coming into the system to have you carry those out. They are simply in the direction of having a more sound and workable bill. It will not put a single dollar more into the earnings of any bank, but it will make for a better institution, which is all we are striving for; and these suggestions are made in absolute good faith, with no ulterior or selfish motive, for the good of the Federal reserve board and of the Federal reserve banks and of the public to be served, and simply with a view of endeavoring to take out of this bill which you have constructed the bad timber and bad material, not with a view of tearing down the structure but simply taking out the defective parts and supplying sound parts in place of them.

That is all. I thank you.

The CHAIRMAN. Senator Hitchcock, do you care to ask any questions?

Senator HITCHCOCK. Mr. Wexler, do you think that the bank capital of the United States to-day is adequate, considering the volume of business and the amount of deposits taken?

Mr. WEXLER. In some sections of the country it is entirely adequate. In other sections it is very inadequate. In the Eastern States and in some of the Middle Western States I think there is adequate capital. In the Southern States and the far Western States it seems to me it is quite inadequate. It is in our section of the country, for which reason we are borrowers.

Senator HITCHCOCK. There has been a growing disparity between the capital of the national banks and the deposits that they receive, and is that constantly diminishing the comparative size of the capital to the detriment of the depositors?

Mr. WEXLER. I do not think the capital is diminishing, but as you have said, perhaps the deposits are increasing, which is making the relative proportion of capital to deposits somewhat smaller than ordinary.

Senator HITCHCOCK. I will give you the figures. At the present time the capital of the national banks represents 12 per cent of their total deposits. Ten years ago it was 16 per cent; 10 years before that it was 30 per cent; 10 years before that it was 38 per cent. Is not that constantly diminishing relative size of capital detrimental?

Mr. WEXLER. It would be were it not for the fact that—take the figures of surplus increase during the same period and I think you will find that the surplus of banks has increased as much or probably more than the ratio of capital to deposits has diminished. A bank rarely ever—it does occasionally, but the great majority of banks do not—increases its capital, and pays but small dividends and constantly increases its surplus to create a greater security to the depositor.

Senator HITCHCOCK. That is true—that is, it would modify it somewhat—but while including the surplus and the capital it would only be 20 per cent of the deposits at the present time. Under those circumstances I want to ask you if you think it is wise to withdraw from these banks so large a portion of the capital with which they are doing business?

Mr. WEXLER. I think that a contribution of 20 per cent is too large, and I have suggested that the amount be cut to 10 per cent; and if

a sufficient number of banks come in, the first 5 per cent call may be sufficient. Twenty per cent margin to the depositor—the ratio of capital and surplus to deposits—is, in my opinion, quite adequate. That would mean that the value of loans of a bank would have to shrink 20 per cent before the depositor could lose a cent.

Senator HITCHCOCK. Is it not a fact that in European banks a much broader margin of safety is observed?

Mr. WEXLER. I do not think so.

Senator HITCHCOCK. That is true of the Bank of France, is it not?

Mr. WEXLER. But you can not compare those banks with the various national and State banks scattered over the United States. If you want to make comparisons of that kind, you must make your comparison with the Federal reserve bank that we would like to see established in this country.

Senator HITCHCOCK. What do you think of the idea of providing in this bill that a portion of the capital shall be furnished and supplied outside of the banks?

Mr. WEXLER. I do not think that it would do at all, because the moment that you furnish any portion of the capital from the general public, the next suggestion would be that the general public would ask for the discounting privilege, and the moment you did that, you would require such an intricate organization for the carrying on of the business of this bank and you would come in direct competition with all of the other banks of the United States, that you would create in the end, if it resulted the way I think it would, a monopoly of the banking business in the hands of this particular institution. And I doubt very much if the commerce of the country would like to feel that its whole commercial welfare was dependent upon one institution.

Senator REED. Do you think that this bill as proposed and with the amendments which your committee suggests would be a good bill for the country?

Mr. WEXLER. I do.

Senator REED. Do you think it would be a good bill for the bankers?

Mr. WEXLER. I do.

Senator REED. Do you agree with Mr. Forgan that a better scheme would be one central bank?

Mr. WEXLER. I do, most emphatically.

Senator REED. Do you think that any part of the virtue of this bill consists in the fact that if it is not one central bank it approximates or approaches that idea more than the present condition?

Mr. WEXLER. I think one would be better than two; and right on down the line, with the fewer number you have the better it will be.

Senator REED. Your preference would be one?

Mr. WEXLER. One.

Senator REED. And your second preference would be two?

Mr. WEXLER. Yes, sir.

Senator REED. But you think you could stand 12?

Mr. WEXLER. You will meet practical difficulties in the carrying out of that bill, if you pass it with 12, that you gentlemen do not see now, but which we see, having figured it out on a piece of paper. You are going to have difficulty in dividing up the country with

respect to these regions. Do you appreciate the difficulty? That each town is going to want to have one of these regional banks? There are going to be overwhelming difficulties and embarrassments.

Senator REED. That, however, is aside from the question of——

Mr. WEXLER. The question of economics, yes.

Senator REED. That has to do with the difficulty of putting the plan in operation; but what I am trying to get your idea on—and I think I have got it, now—is the reason you bankers favor this bill as amended, or one reason, and that is that it means a concentration of the capital, and the nearer it comes to being concentrated in one place, the better you like it.

Mr. WEXLER. The concentration of capital, and especially of reserve.

Senator REED. Yes. You get a bank—head and heart and center—in other words.

Mr. WEXLER. It is very much like the illustration, if you will remember, Senator Reed, of the old man who, when he was about to die, called his seven sons up and he had a bundle of seven sticks, and he asked them all to try to break them, and none of them could. He pulled one out after the other and broke them up, and they said, "That is easy."

That is the proposition. If we get all these reserves in one spot, we will have a bank with the largest gold reserve of any country in the world, and we will have so strong a commercial and financial center that France and England and Germany will be insignificant to us in importance in the commerce of the world. But if we scatter these in 12 institutions, owned by 12 different States, you are bound to have competition between them. Human nature is the same everywhere, and this provision that you have here for requiring one Federal reserve bank to discount for another is going to involve these banks in endless difficulties. If you come to a Federal reserve bank in New Orleans and think that they must discount for the Federal reserve bank in California, and the Federal reserve bank in New Orleans is not in a condition to discount, I would tell you: "I will not do it. This money belongs to other stockholders, and I have not the right to take this money out of their pockets and send it to California." You would be up against just that proposition.

Senator REED. Let me follow that a little bit. I just want to get your ideas. If you had a Federal reserve bank in New Orleans and one in California, and the California bank called for aid and you got orders from the controlling board to send them a million dollars, you would decline to do it if you thought your bank could not afford to do it?

Mr. WEXLER. Precisely.

Senator REED. You added to that this statement, that it would not be right; you would decline, because you would not take the money from that district and send it to another district. Suppose you had one central bank. This money would not have been in New Orleans at all; it would have been in Washington or some other place where that bank is situated. Do you think that is preferable?

Mr. WEXLER. Yes, sir. There would have been no more in New Orleans than what was needed in New Orleans, and no more in the other place than what was needed in the other place, and if the money all belonged to one set of stockholders it would be properly within the province of this board to distribute it where it was needed, all over the country.

Senator REED. But it would originally all have been sent from these various places out of their respective communities to some central point, and to that extent would have bled those communities of that money?

Mr. WEXLER. Only constructively, not actually. For instance, the head of the Federal reserve bank, or the central bank, if we should have one, would be in Washington, and they would establish not 12 branches, but probably 200 branches throughout the United States, and the money would be kept in these various branches in the United States. With the central board, having the control, fixing the rate of discount for its branches, raising and lowering it according to conditions, and directing the management of all these various branches, there would be one ownership, one reserve, one statement, and there would be such a vast base upon which the credit of the country would rest that it would be impregnable.

Senator REED. I catch that point; but about the distribution of money. You met what I suggested by the further suggestion that we would not have one central bank, but one central bank with many arms reaching in every direction?

Mr. WEXLER. Precisely.

Senator REED. So let us say that one had 12 arms. Why would not the first 12 branches, as were originally proposed in this bill, the 12 systems, be substantially identical in regard to the matter of the distribution of money?

Mr. WEXLER. Because of the difference in ownership. The essential thing is the ownership of the bank. If you will permit the capital to be contributed to the 12 regional banks to be put into the Federal reserve board, and the stock issued from that Federal reserve board, and let it apportion it among the 12 banks, then the situation would be identical.

Senator REED. Do you think that would be preferable?

Mr. WEXLER. That would be a central bank. You come right back, then, to that proposition. But suppose, now, Mobile, which is a sister city of ours, and a people of whom we are very fond, should get into hard straits and need money badly. If we had it, we would be glad to rediscount it for it.

Senator REED. And strain yourselves a little to do it?

Mr. WEXLER. And strain ourselves a little to do it; but if we had our local reserve loaned up to the handle ourselves, we would say, "We are sorry, but we can not help you." We would have to say that. That would be a duty upon us, because if we broke ourselves in trying to help somebody else, the only criticism would be to say, "You did a foolish act." Nobody would say, "You did a generous act."

Senator REED. I think I catch your point. I want to ask you now about another matter. Of course you have examined this bill and you have spoken about the chairman of the board of directors' duty under this bill. Of course the chairman is one of the men appointed by the Federal reserve board.

Mr. WEXLER. Yes, sir.

Senator REED. You say that, generally, the chairman of the board in the ordinary practice of banking is not an important individual unless the chairman of the board happens also to be the president of the bank?

Mr. WEXLER. Or the active manager.

Senator REED. As you understand this plan, is there anything in it that would take away from the president of the bank that degree of management and control which the president of a bank ordinarily has when he is backed up by a board of directors that are in harmony with him, or the majority of which is in harmony with him?

Mr. WEXLER. Nothing, except the fact that the chairman will preside. The chairman of a board, as you understand, presides at the board meetings. What is the object of a board meeting? At the meeting of the board of directors, after the minutes are read and the loans are read that have been made, and loans are submitted and passed upon and the details of the institution are discussed, etc.: here is the chairman of the board; he is not a member of the management at all; he is in no position to bring these matters to the attention of the board. That is the duty of the governor.

Senator REED. He is, under this bill, so much of a figurehead that he is not even in good condition to lay the business of the bank before the board of directors?

Mr. WEXLER. Absolutely not.

Senator REED. Then, if I get you right, the president of the bank and the majority of the board of directors will run this bank absolutely, except as the espionage of the central board might prevent?

Mr. WEXLER. Or interfere; that is exactly it.

Senator REED. So that if the banks elect three bankers directors and then elect three other directors, I suppose you would concede those three other directors of course would be friendly to the banks and desirous to serve the banks as the directors in class B should be ready to serve the banks, or the same as in class A? What you will do, as a matter of fact, will be to get three men that will act in harmony, three men in class B who will act in harmony with the three men in class A?

Mr. WEXLER. That is a very distinct mistake, and it is an impression of which I would like to disabuse the minds of the gentlemen of this committee. When we select the board of the bank we do not consider whether this board is in accord with the president. We pick out a man who is an experienced wholesale groceryman, another man who is a retail dry-goods man, another man who is in the machinery business, another a planter. Why? Because when these propositions arise from persons engaged in these various lines of business it makes it possible for us to have men who are more or less expert in the particular line.

Senator REED. I understand that, but all these men are members of the board. They are stockholders in the bank and they are interested in its welfare.

Mr. WEXLER. Yes, sir.

Senator REED. Therefore when you pick men who are experts in these various lines of adventure, you, of course, know when they come to sit on the board they will use their best judgment?

Mr. WEXLER. Yes, sir.

Senator REED. Do you mean to tell me that you or any other man, not more selfish than the average man, but just using the ordinary business sense, will not get three men that are going to side with the banks rather than with the Government in these matters?

Mr. WEXLER. I certainly do not, unless the Government were endeavoring to impose something that we did not believe was right.

Senator REED. I do not mean that they are going to be bad men, but I am talking about who is going to control in that board of directors. Who is going to control?

Mr. WEXLER. The people that have put the money in the bank, who have invested their money, are going to control, and they ought to control.

Senator REED. The banks are going to control?

Mr. WEXLER. Yes, sir; there is no question about that.

Senator REED. There is nothing in this bill, is there, that provides that those three men who are elected—that is, all of the directors of class B—may not own any amount of bank stock they want to own?

Mr. WEXLER. No; there is nothing in there to prevent their owning bank stock.

Senator REED. The only bar there is that they shall not actually do business with the banks, and shall not be interested as an officer of a bank?

Mr. WEXLER. Yes, sir.

Senator REED. And as their election makes them officers they can not hold two offices very well, and as they can be stockholders to any amount, it might work out that the largest stockholders in the bank would qualify themselves for these positions by resigning their offices in the bank; so that, in fact, the six men might all be wealthy stockholders in the bank—these men constituting classes A and B?

Mr. WEXLER. That would be a desirable situation.

Senator REED. And that is what the banks would like to have?

Mr. WEXLER. I think it would be desirable, because the more money you have invested——

Senator REED. And you would like to have the other three, of course?

Mr. WEXLER. They would be selected by the President——

Senator REED. I say you would like to have the other three?

Mr. WEXLER. No; we would not care anything about that, so long as we had a majority.

Senator REED. That is what I wanted to get at. So that these central reserve banks, under this scheme proposed in the bill, will be absolutely and entirely and completely in control of the banks except as the Government may exercise some power, whatever it may be, through the central reserve board?

Mr. WEXLER. The Government would have a representative on the spot to report to it every infraction of the law, and it has the right to take away the charter of this Federal reserve bank at any time it sees fit.

Senator REED. You have no doubt that these banks would not deliberately violate the law. The question, of course, would be—though it is one we need not enter upon—how this control would go in practical operation?

Mr. WEXLER. We cover that a little bit farther on.

The CHAIRMAN. Mr. Wexler, you spoke of what would be your natural duty if you had charge of one of these reserve banks at New Orleans and a demand was made upon you by the Federal reserve board to lend a portion of your funds to one of the reserve banks of California. Do you think that any such an organization as the Federal reserve board would not accord you careful consideration to any communication you made?

Mr WEXLER. I think they would; I think they should; but suppose a very strong influence were brought to bear from California—and we know how influences work; we might as well be perfectly frank with each other. That might be a State that was antagonistic to the particular administration at that time, and California might be one favorable to it, and there might be a good deal of pressure brought to bear; but if I knew that loaning money to California might break the bank I had charge of, you can readily see the position I would be placed in. I can not conceive of a Federal reserve board that would endeavor to do that.

The CHAIRMAN. Do you know of a Federal reserve board that would take an action that would cause the breaking of one of the banks?

Mr. WEXLER. I do not think they would if they knew it.

The CHAIRMAN. Your suggestions of political influence of improper character would indicate an indifference to the welfare that might be affected in a neighborhood that was not in complete harmony with the Federal reserve board.

Mr. WEXLER. Of course, such conditions might exist. I am very hopeful that we have not reached to that point. But the point I make is this, that it would be the natural disposition and to the interest of one Federal reserve bank to rediscount for another if it were able to do it, and that no compulsion is necessary. You can not imagine how distasteful compulsory acts of that kind must be to a bank or a banker.

The CHAIRMAN. Do you not, then, recognize that there is some force in having the right to protest and point out to the Federal reserve board that it would be an injurious thing to such a bank to make this required loan?

Mr. WEXLER. Yes, sir; surely.

The CHAIRMAN. Do not think that it is advantageous, then, to that community to be allowed to protest?

Mr. WEXLER. For the community called upon to make the loan?

The CHAIRMAN. For the bank of a certain district to have the right to protest?

Mr. WEXLER. I certainly do think so.

The CHAIRMAN. Would they have any protest whatever as to a central reserve bank?

Mr. WEXLER. There would not be any necessity for a protest, Senator Owen.

The CHAIRMAN. Nor would there be any organization by which they might protest.

Mr. WEXLER. But the occasion to protest would never arise. There would never be surplus money in any one place that was needed in another.

The CHAIRMAN. The point to which I call your attention is that the protest which you might make as the manager in charge of a reserve bank you could not make after there was any such organization because these funds would all be in the central reserve control directly, or no organization by which you could protest. Am I right?

Mr. WEXLER. You are right in the suggestion, if the condition existed. But if you had a Federal reserve bank it could not exist,

because all the money would belong just as much to San Francisco as it would to New Orleans or New York, or any other place.

The CHAIRMAN. And in that contingency the reserve which would be furnished by the banks in the country surrounding New Orleans would be capable of use by a Federal reserve board, the protest of the banks surrounding New Orleans to the contrary notwithstanding?

Mr. WEXLER. Absolutely.

The CHAIRMAN. Do you think that is desirable?

Mr. WEXLER. I think it is eminently desirable, presuming always that you had a Federal reserve board that knew its business.

The CHAIRMAN. Was that a part of your original proposal?

Mr. WEXLER. That goes without saying, that it should know its business. If it were made up of the various districts of the country, I think each one would see to it that its own particular section was not slighted. This country is so big and the crops are so diversified and the nature of its business is so different that the demand for money in different places differs at different seasons of the year. The Federal reserve board, properly constituted, would see to it that when the surplus permitted at one place it might be sent out to California when the fruit was being moved, or out to Minnesota when the grain was being moved. That is where the advantage of having the funds under one control exists as against having it under twelve different controls.

Senator REED. How would it be if you just came down to the Government and did not have any central reserve banks? How would it do to take the plan that now exists and enlarge it and make it so that it would be more flexible?

Mr. WEXLER. I do not think the Government ought to be in the banking business.

Senator REED. I am not speaking about it being in the banking business. I am speaking about letting the banks or groups of banks have some of its money.

Mr. WEXLER. You mean similarly to the method being pursued just now?

Senator REED. Yes, of course; only enlarging it and perfecting it.

Mr. WEXLER. The method of doing it is quite cumbersome——

Senator REED. I am speaking about fixing that part of it, assuming that it can be fixed.

Mr. WEXLER. A number of experienced bankers might be able to set down a figure exactly by which some system could be evolved of that kind, but it is so contrary, in our opinion, to sound finance, that we never conceived the idea of having the Government in any way mixed up in the banking business. We have no other machinery for helping ourselves. I will state our case right now. We borrowed such money as the law allows us, and we are using it to move our cotton crops, our rice and our corn and the various business that comes through our port. I can not get any more; I have not the right.

Senator REED. Suppose you were given the right. I do not want you, in answering my questions, to answer whether you think that the present system just as it stands would be adequate, but whether, since you gentlemen all, thus far, seem to want a central bank—one power—how would you like to have the Government of the United

States, under a plan similar to the one now existing, simply to furnish money when it was needed to the groups of banks?

Mr. WEXLER. I would be very much opposed to it, Senator, for this reason: The moment any section would make application to the Government for relief it immediately attracts attention to its condition, it creates fear in that particular section, and it causes a withdrawal of money from the bank and the hiding of it.

Senator REED. You are speaking now of cases of emergency?

Mr. WEXLER. Yes, sir.

Senator REED. I am speaking now about the right of the banks of New Orleans, through their clearing house, to come up here to the Treasury and say to the Secretary of the Treasury or to a branch of the Treasury—it might be in New Orleans—"We need money to move crops, and here are our securities. We would like to have some Government money."

Mr. WEXLER. It would not be practical, Senator. The Government has no machinery for handling it in that way. It is a cumbersome method, at best. It has to surround its operations with a lot of red tape, and the Government does not always have the money.

Senator REED. I am assuming that it has.

Mr. WEXLER. But, Senator, this is the one thing you ought to get into your mind, and that is the further you can separate the Government from the banking system of the country the better it is. When the Prussian Army was encamped in the streets of Paris, in the Gardens of the Tuileries, the banks of Paris paid 100 cents in gold against their bank notes just the same. Why? Because the bank was separate in its reserve against these notes from the Government. In the city of New Orleans, where we had the Citizens' Bank, with a gold reserve of 35 per cent against its outstanding notes, when the Federal Army occupied the city we went right on paying those notes—until Gen. Butler came in and took the gold. We paid right up to that date.

Senator NELSON. I was there at the time.

Senator REED. I want to say, in view of the confession of the Senator from Minnesota, that you probably know, Senator, that the statute of limitations has run?

Senator NELSON. I want to tell you one thing: You are not old enough to remember it, but their State bank currency was good, and they had no change. They would take a dollar bill, or a two-dollar bill, or a five-dollar bill and cut it into halves, crosswise, and each half would pass current, just as good as gold. That was in 1862 and 1863.

The CHAIRMAN. The Senator says he was there. He did not say he got any of it. [Laughter.]

Mr. WEXLER. Suppose we got into a general war with a big country, and we needed a lot of money, and we had to sell bonds. Do you not want this big banking system to be able to absorb these bonds so as to furnish the Government with the gold necessary to carry on an operation of that kind? If it—the Government—had loaned its money to the banks, and the banks had loaned it out to merchants and farmers and had to call it in, it would create a panic.

Senator REED. Of course everybody understands that in the case of desperate war the fact that there was a gold reserve elsewhere than in the Government would be very desirable; yet you would

hardly think that a banking system ought to be constructed so as to meet emergencies, disregarding payments——

Mr. WEXLER. Oh, certainly not; exclusively with that idea.

Senator REED. What I was trying to get at was just your idea. I do not want to argue, because we would not gain anything by doing that.

Mr. WEXLER. No; of course not.

Senator REED. Suppose the Government of the United States was to simplify and enlarge the present Aldrich-Vreeland Act and make it so that banks or groups of banks could come here and get money to move crops in two ways, by the deposit of money in the nature of a loan or even in the issuance of money in case the Government found that necessary. Why would not that relieve the present situation to a large extent?

Mr. WEXLER. I will tell you why, briefly. It could be said in a very full manner, but I am only going to say a little on the subject. Every bank in a particular city does not necessarily need money at the same time. Suppose our bank desired to avail itself of the Aldrich Vreeland bill, as amended, in the manner that you are going to suggest. It would have to go before the clearing house and expose its condition to all the other banks in the city. They would have to come in and pass upon our securities, the clearing house would have to guarantee the repayment of the loans. Then you would have to send your securities up here to be passed upon. By the time you went through all of that it would not be worth a cent.

Senator REED. You are talking consistently about the present condition not being simplified. I am assuming that there are methods for the simplification of it and giving the right relief. Now, as a parallel of what you say, suppose that these banks belong to the central reserve bank; that is, to one of these 12 banks; or if you have a central bank and want to get relief, would you have to expose your condition?

Mr. WEXLER. They would go up to the central bank and say: "Here is $1,000,000 of good notes. Can you discount them?"

Senator REED. How do you know?

Mr. WEXLER. Because they have men in charge of the bank that know the conditions and have investigated them.

Senator REED. It is a local bank?

Mr. WEXLER. Yes, sir.

Senator REED. A local regional bank?

Mr. WEXLER. Yes, sir.

Senator REED. You would have a local regional bank in every State?

Mr. WEXLER. I would have a branch of a central bank in every city of any consequence.

Senator REED. Then there would not be any use of going into the banking business unless you belong to this organization?

Mr. WEXLER. I think every bank would naturally become a member of that system.

Senator REED. This would be very powerful——

Mr. WEXLER. And very satisfactory.

Senator REED. Power would cut some figure?

Mr. WEXLER. That would be the least of it. Here is what we suffer from: A bank has all of its liabilities payable on demand.

Anyone can come there and demand his money. It is loaned out to keep the wheels of commerce greased. Where can the banker go to get the money to satisfy that demand? He has simply got to throw up his hands and shut his doors and fail. What I wanted to do is to provide a central bank where it can take its portfolio and go over to that central bank and get enough money to pay every single man, woman, and child who has got a dollar in there, upon demand. They would soon be redepositing it in the same bank.

Senator REED. I agree with you that that is the principal trouble with the banking system. It is so arranged that every obligation of the bank is due on a moment's notice, barring time deposits, and every credit of the bank, everything that is owing to it, is out for 30 or 60 or 90 days. If you can take those securities and go to a privately owned central bank and get your money and it can discount it safely, why can not the Government of the United States do the same thing?

Mr. WEXLER. Because it can not get itself in shape to do it.

Senator REED. Why not?

Mr. WEXLER. Because I can not conceive of any machinery operated by the Government that could or should be used for this purpose. What is the use or advantage of mixing the Government up in it? What is the use of using something worse when you have something better at hand?

Senator REED. I can say to you frankly, in my humble judgment, if you agitated it for 25 years longer, the people would never vote for a central bank. I want to get your idea of a privately controlled central bank. I was trying to get your idea upon the thought of a Government-controlled central bank.

Mr. WEXLER. I am in favor of a Government-controlled central bank.

Senator REED. Absolutely controlled by the Government?

Mr. WEXLER. Absolutely controlled by the Government, but with representation from different sections of the country; but the control should be in the hands of the Government. I am not afraid of that. We are in favor of that, but we do not want the Government to guarantee the notes or to be any part of the system except to control it and to see that it is operated for the good of everybody.

Senator REED. You want to issue the money?

Mr. WEXLER. Surely. We want to issue the paper, the circulating medium; we do not want to issue money.

Senator REED. You want to issue paper. Commercially we call it money and it goes as money.

Mr. WEXLER. Certainly. It is highly advantageous.

Senator REED. If I get your idea, it would be one great central bank with numerous branches running into every community of the country?

Mr. WEXLER. Yes, sir.

Senator REED. And the Government would control absolutely that central bank?

Mr. WEXLER. Control it, yes; but there would be representation.

Senator REED. How is it that you are willing to completely surrender the control if you have 1 bank, but unwilling to surrender the central control if you have 12 branches?

Mr. WEXLER. We are.

Senator REED. I understand that the very thing that you contend for here is that the Government ought not to undertake to manage or control these 12 branches?

Mr. WEXLER. No; we have only asked for a minority representation by the Federal reserve board.

It is necessary because of their expert management. That is where the business is going to be done and that is where the local knowledge of conditions must be and where the people have their money invested. The people have their own money in there and their friends' money, and there is a local reputation to maintain.

Senator REED. I think I understand you. You think that a lot of bankers—that is, all the bankers of the country, nearly—would put their money into an enterprise and trust to making one central bank a bank of issue and a bank of deposit, and they would trust that to officers appointed by the Federal Government?

Mr. WEXLER. Yes, sir.

Senator REED. And that that could be safely done?

Mr. WEXLER. That could be safely done.

Senator REED. But that the moment you transfer those powers into the Federal authority having still the same control, it is dangerous?

Mr. WEXLER. This Government should have control, the banks minority representation. The Government would not dare to do anything that would not be right. Public opinion is the great corrective influence in this country.

Senator REED. That is what I think would be true if we had a Federal bank instead of a bankers' central bank. I think public opinion would control.

Mr. WEXLER. Senator, what do you want with a Federal bank? If you have a Federal bank the whole thing is as weak as its weakest link. If anything happens the whole thing breaks down. If you mix them in together and anything happens the whole thing breaks down.

Senator REED. What becomes of your stick argument? You say if you take two sticks separately they are stronger than the two sticks tied together?

Mr. WEXLER. That is a different proposition altogether. They are not the same kind of sticks. One is a rope of sand, the other the stick.

Senator REED. No.

Mr. WEXLER. Absolutely. The Government has absolutely no money except what it takes away from the people; and under the principles of our party they ought not to take 1 cent more than they actually need. That is the principle of the Democratic Party, with which I am affiliated. Consequently the Government has no business with a lot of money to be scattered around. If it takes any more by taxation than is just and proper for running the Government, it is a wrong principle. But we have gone along many years without any trouble. You can have a war any time that will cost this country a thousand million dollars. Where will you get the money? You would have to go around and get the bankers to buy your bonds. Do you want to be behind another thousand million of notes, with the possibility of having to sell a thousand million of bonds? Would

you bring the whole structure down at one time? You must look to the future.

Senator REED. We are getting a little away from what we were talking about.

Mr. WEXLER. No, we are not.

Senator REED. We always get to talking about war.

Mr. WEXLER. I am talking about what could very well happen. It happened in 1776, and in 1812, and in 1845, and in 1860, and in 1898. We have had one about every 30 years since we have been a Republic, and we are about due for another one.

Senator REED. But we have not had a war since 1860, of course——

Mr. WEXLER. How about the War with Spain?

Senator REED. That did not amount to as much of a war as some good strike on a railroad.

Mr. WEXLER. It cost us $300,000,000, I think.

Senator REED. And it will cost us more when we get through paying pensions.

Mr. WEXLER. Yes, sir.

Senator REED. But I think that is aside. If you had this great central bank and the Government was liable to go down, do you think that bank would stand?

Mr. WEXLER. Absolutely, like a rock.

Senator REED. But you think now, if the banks were to put this money into the hands of the Government, that both banks and the Government would go down together?

Mr. WEXLER. I do, emphatically; just as certain as that the sun rises.

Senator REED. What do you think about the creation of these enormous financial powers outside of the Government, in times of peace?

Mr. WEXLER. That is all right. We should dominate the financial business of the world.

Senator REED. Would not they fix the discount and the rates of interest for the entire country?

Mr. WEXLER. Yes, sir.

Senator REED. Would not that be a powerful factor?

Mr. WEXLER. Yes; to that extent.

Senator REED. And you think that ought to be the case in the Republic?

Mr. WEXLER. Yes, sir.

Senator REED. If it put its power in behind a great railroad project——

Mr. WEXLER (interrupting). If the business of the country was going too fast, and everybody was expending too much and buying too many automobiles, and every man wanted to buy his neighbor's land and build houses there, they would raise the rediscount rate and cause a slowing up. On the other hand, if business became dormant and dull and needed stimulation, put the rate down and stimulate business.

Senator REED. In other words, they would be the great regulator of all the commerce of the country?

Mr. WEXLER. Absolutely.

Senator REED. They could make business prosperous, or they could shut down on it?

Mr. WEXLER. They could, yes, to some extent; they could do that.

Senator REED. Under similar circumstances, what could the Czar of Russia do? He could not do any more, could he?

Mr. WEXLER. All they have to do, all that this central bank has to do, is to furnish credit for carrying on the business of the country. If more notes were demanded than in its judgment it was safe to put out, it would not do so. If you put in charge of that bank a board of directors of crooks and incompetents, why they could of course wreck for the time any business. They could create havoc; but it would not last long. You would have a certain minority member on that board representing the business interests of the country; he would soon arouse public opinion—and public opinion will check any abuse in this country; I do not care what it is or how bad.

Senator HITCHCOCK. Do I understand whether this is a single bank or 12 regional reserve banks you favor a central board of control here in Washington, appointed by the President?

Mr. WEXLER. Yes, sir.

Senator HITCHCOCK. You are not at all afraid of placing the financial interests of the country under such a board of control?

Mr. WEXLER. Not if we have a minority representation.

Senator HITCHCOCK. You are confident enough of being able to influence the actions of the central board?

Mr. WEXLER. It is not that. We are confident enough. If we know what the majority is doing we can check before the abuse goes too far without any idea of using any undue influence.

Senator HITCHCOCK. Of course the financial interests of the country would have a tremendous interest in the control of that board—the actions of the board?

Mr. WEXLER. I do not think so. My dear sir, the banking interests do not want anything but peace and quiet and safety. The banker wants to sleep at night. That is all he is asking.

Senator HITCHCOCK. I think perhaps you misunderstood me. I have understood the whole tenor of your argument to be that you were vitally interested in the personnel of the board?

Mr. WEXLER. Yes, sir.

Senator HITCHCOCK. And of course you must be interested in the actions of the board?

Mr. WEXLER. Unquestionably.

Senator HITCHCOCK. And the 25,000 bankers of the United States, if they were all in the system, would be vitally interested in the organization and the selection of the board?

Mr. WEXLER. Precisely.

Senator HITCHCOCK. It would give them a tremendous interest in presidential elections?

Mr. WEXLER. No, I do not think so. I think any President who was honored by the nomination of the people of this country could pretty safely be trusted to put the right kind of men at the head of a bank of that sort. If I did not think so I would feel that the time had come to change our form of Government.

Senator HITCHCOCK. You have a perfect organization of bankers, have you not?

Mr. WEXLER. Each one is a separate entity. We have no organization except for discussing our general affairs just as the merchants do and the hardware men and lawyers and doctors.

Senator HITCHCOCK. You came here to-day practically with the banking interests of the United States united, represented by a small body?

Mr. WEXLER. Precisely.

Senator HITCHCOCK. It is possible you might be united in an election?

Mr. WEXLER. I can not conceive of it. We are only about 24,000 bankers. If we all voted for one man it would not be more than a drop in the bucket. I do not think it would be all one way.

(At this point the committee took a recess of 10 minutes, after which the following proceedings were had:)

The CHAIRMAN. Mr. Wexler, the Senator from Ohio would like to ask you a question.

Senator POMERENE. Mr. Wexler, a moment ago, in stating your objections to the regional bank system, you used this illustration, as I recall it: That if California should want $1,000,000, the central board might say to the regional bank in New Orleans, "You send $1,000,000 to California."

Mr. WEXLER. Yes, sir.

Senator POMERENE. And you suggested that you might not be in condition to do this?

Mr. WEXLER. Yes, sir.

Senator POMERENE. And that if you did do it, it would be an injustice to your own people?

Mr. WEXLER. Yes, sir.

Senator POMERENE. Well, why do you assume under those circumstances that this central board would make an order of that kind that would work a hardship to the New Orleans regional bank?

Mr. WEXLER. I do not assume that they would.

Senator POMERENE. Well, you suggested that it was a probability—or, a possibility, at least.

Mr. WEXLER. Surely a possibility; but I did not assume that they would.

Senator NELSON. They have the power?

Mr. WEXLER. They have the power to do it.

Senator POMERENE. I did not understand.

Mr. WEXLER. I say, they have the power to do it.

Senator POMERENE. But it seems to me that you are in error when you assume that they would do this thing which was wrong simply because they had the power to do it.

Mr. WEXLER. Well, my dear sir, you must admit that you would never as a man, in any of your general affairs, give anybody else the power to ruin you, even though you have not the remotest idea he would ever exercise that power.

Senator POMERENE. Very well; let us go to your other illustration. In speaking of the central bank, you say that if New Orleans wanted to move her crops——

Mr. WEXLER (interposing). Yes, sir.

Senator POMERENE (continuing). All she would have to do would be to go to the central bank and get the money?

Mr. WEXLER. Yes, sir.

Senator POMERENE. Is it not just as reasonable to suppose that the board of this central bank might refuse to give you your money when you needed it——

Mr. WEXLER (interposing). Yes, sir.

Senator POMERENE (continuing). As it is to assume that the board which had control of the regional banks would order you to do a thing when you ought not to be required to do it?

Mr. WEXLER. Yes, sir; and the central reserve board should have the right to refuse to give it to me. They should have that right, for this reason: If in our section of the country everybody had a craze, for instance, for holding their cotton, and everybody was spreading out; and if we called for more money than we ought to have, and we were in an expanded condition—if that central bank was properly run, it should say: "No, you can not get any money; you sell your cotton, and draw in your horns and go more conservatively."

Senator POMERENE. I agree with you, Mr. Wexler, that they ought to have the power to do it.

Mr. WEXLER. Exactly.

Senator POMERENE. But they might as well misuse that power in the case of the central bank, as the central board might in the case of the regional bank; and it seems to me—this is my point—that the power is as liable to abuse in the one instance as it is in the other.

Mr. WEXLER. I do not think so. The situation is altogether different. For instance, the central reserve board would never use the power to say: "Here, you are not lending enough money down there in your country; you go and put out more money; loan everybody down there all they want." They would never use that kind of power. And I would not give the power to demand of a bank that it must lend somebody else where it is contrary to its judgment; but I certainly would give it the power to refuse to lend. There is the essential difference.

Senator POMERENE. And they might refuse it at the very time you needed it.

Mr. WEXLER. That is right; and it might be wisdom to refuse. I have had many a man come to me for a loan that needed it very much, and I have turned him down. And I have also had banks come to me for a loan that needed it, and I have turned them down; and they failed because I would not give it to them—because they were not entitled to it, and the loan, if made, would not be repaid.

Senator POMERENE. I simply called your attention to this fact, because I realize the possibility of power being abused in either instance.

Mr. WEXLER. Yes, sir.

Senator POMERENE. And I do not think that the one is more objectionable than the other, as I say.

Mr. WEXLER. I see your point.

Senator SHAFROTH. Mr. Wexler, relative to the matter that you first referred to, on arriving, that relationship of the Bank of England and the European banks——

Mr. WEXLER. Yes, sir.

Senator SHAFROTH. We ultimately did not disagree very much as to that matter?

Mr. WEXLER. No, sir.

Senator SHAFROTH. But I want to read to you a little paragraph from Walter Bagehot's book, Lombard Street, which probably clears the matter up more thoroughly than we did. He says:

In London no banker has a chance of being a Bank of England director, or would ever think of attempting to be one. I am here speaking of bankers in an English sense—those who accept deposits subject to check. Not only no private banker is a director of the Bank of England, but no director of any joint-stock bank would be allowed to become such. The two situations would be taken to be incompatible. The mass of the Bank of England directors are merchants of experience and drawing a considerable capital in trade, in which they have been brought up and with which they are well acquainted. The direction of the Bank of England has for many generations been composed of such men.

Mr. WEXLER. Yes, sir.

Senator SHAFROTH. That is, I believe, the correct explanation.

Mr. WEXLER. I am very glad you brought that up, because one point I overlooked with regard to the Bank of England is this: The stock of the Bank of England is not owned by the banks.

Senator SHAFROTH. No.

Mr. WEXLER. Banks are not required and compelled to subscribe to the stock of the Bank of England.

Senator SHAFROTH. No.

Mr. WEXLER. The banks have no interest in the bank, except to borrow from it.

Senator SHAFROTH. They can not be subscribers.

Mr. WEXLER. They may be——

Senator SHAFROTH. No; I think not.

Mr. WEXLER. They may not be, then; I am not sure of that. The case is not analogous at all.

Senator SHAFROTH. Yes; but the question is that that power of lowering or raising the discount rate on paper affects the market value of all securities, and the result is that it would be an improper thing or an incompatible position for a person to be in a banking business and dealing in securities, perhaps buying and selling stocks and bonds, and at the same time knowing in advance just what the action of the board would be.

Mr. WEXLER. We thoroughly agree that the controlling members of this board should be men more or less disinterested, so far as any bank is concerned. There is not any argument on that.

Senator CRAWFORD. Mr. Chairman, I would like to ask a question before this witness leaves the stand; I have been waiting for two hours.

Senator REED. I thought there might be some delay in finishing with this witness, and I was about to submit a motion to adjourn.

Senator CRAWFORD. But this witness may be excused and may not be here to-morrow. It is a very small matter; but I want to get it in the record.

Senator REED. I do not want to shut your question off. If you are not content to take it up in the morning, I will not make the motion, but if you are, I prefer making the motion.

Senator CRAWFORD. It is only a question to and relates to a matter I want to follow in this bill; and I want to get it in the record, because it affects very much a very large number of small banks.

Senator WEEKS. Mr. Chairman, I desire to ask the witness some questions, and if there is a desire to adjourn, these various questions may delay the adjournment considerably. Will the witness be here to-morrow?

The CHAIRMAN. He will be here to-morrow. We have a caucus to-night at 7 o'clock.

Senator HITCHCOCK. Will the committee meet to-morrow morning?

The CHAIRMAN. Yes.

Senator NELSON. I suggest that we adjourn until 10 o'clock to-morrow morning.

Senator CRAWFORD. I only want to ask two or three questions.

Senator HITCHCOCK. I suggest that the Senator be allowed to ask the questions he desires.

The CHAIRMAN. In the absence of objection that will be done.

Senator CRAWFORD. The question I want to ask, which is largely on account of the fact that all of the banks in my State are in the situation I will suggest, is this: You stated that if you were called upon at New Orleans to discount paper in California, and you thought it was against the interest of your community, you would refuse to do it. I want to call attention to the fact that in one of the western agricultural States, which has not a city in it and whose largest town has not more than 15,000 people, there are 102 national banks, capitalized at from $25,000 to $100,000 each. By this bill, if it is enacted in its present form, Congress will go into that State with a big stick, and it will say to these little banks, "You are required to take a million and a half dollars out of your loanable assets." It would be reducing their loanable assets, would it not?

Mr. WEXLER. Yes, sir; it would.

Senator CRAWFORD. You are required to take $1,500,000 out of your loanable assets that are now being employed in such little community, developing that new growing State, money that you are now loaning to the farmers and stockmen and retailers.

Mr. WEXLER. Yes, sir.

Senator CRAWFORD. You are required to lift that money out of your banks and away from your local customers. Under the penalty of dissolution, we compel you to invest it in stock in a regional reserve bank, 500 or 600 miles away, outside of your State entirely and beyond the reach of ordinary business transactions, for the purpose of capitalizing an institution of that kind. We are not going to allow you to have more than 5 per cent on your investment—you are now making 12, or 15, or 20 [laughter]—but on this money we are going to compel you, by a big stick, to lift out of your banks here and take away from your merchants, and your stock growers, and your farmers and put it over there; and we will only let you have 5 per cent on it, and we will not allow you to have any voice whatever in its final control——

Mr. WEXLER (interposing). Control; yes, sir.

Senator CRAWFORD (continuing). Control over it. And unless you have got a certain class of paper that we prescribe in this bank (of which you have none and will not have) you can not rediscount anything that you have in the way of paper in this bank. Now, does that comport with your idea of what is just and fair to the little banker in this country?

Mr. WEXLER. It does not, except——

Senator CRAWFORD (interposing). Does it comport with what is fair and just to the small customers, and the farmers, and the merchants, and the tradesmen in those small communities that are now getting that money?

Mr. WEXLER. No.

Senator CRAWFORD. Do you know anything in the history of banking legislation, in this country or any other, where such a thing as that has been done or attempted?

Mr. WEXLER. I do not know of any instance in any country where any man has been called upon and compelled to invest his money in something, whether he wanted to or not.

Senator CRAWFORD. That is what I mean.

Mr. WEXLER. But I think you have drawn your picture in rather a dark and gloomy manner.

Senator CRAWFORD. Well, if I have, I should like to know wherein it is defective.

Senator NELSON. How about the deposits?

Senator HITCHCOCK. Mr. Chairman, can not we adjourn at this time? It is getting late, and the witness will be here to-morrow.

Senator MCLEAN. Let him answer that.

Mr. WEXLER. I will answer it. I do not think there ought to be any compulsion about the subscribing to these banks. I think the proposition should be made sufficiently attractive—or, at least, not so disadvantageous—but that banks will want to come in; and I think that can be done without any sacrifice of any fundamental principle.

Now, your banks that you refer to will have to contribute this $1,000,000 or $1,250,000 toward the capital. There is no hardship upon them in doing that at all. You have got a new State, a growing State; and anything which contributes to stable conditions in the United States helps your State and mine and every other State. Under our present banking system we have no stable conditions; we are on the mouth of a precipice all the time. We never know when things are going to blow up.

Senator CRAWFORD. Then, you think that the benefit we will get there is this public-welfare benefit?

Mr. WEXLER. Not only public benefit, but your own benefit as well.

Senator CRAWFORD. Well, you big banking people in New Orleans, and Chicago, and New York, who have been working on this great banking scheme, have you really considered very much the interest of our little fellows?

Mr. WEXLER. Yes, sir.

Senator CRAWFORD. With these small agricultural banks in country communities?

Mr. WEXLER. Yes, sir; I assure you we have. We have some 500 or 600 correspondents among such banks, and we have considered them very carefully and many have offered the same argument that you have.

Now, let us go on just a little further. You say they will not have any of the kind of paper that can be discounted. That is an exaggeration; they have enough of that paper to rediscount every day to take care of their requirements. For instance, you have made the requirement in the bill that rediscounts must be of paper not running beyond 90 days. Suppose a bank wanted to borrow money on the 1st of March, for instance; and they went to their portfolio and found that they had $5,000 maturing in 90 days, out of a total of $100,000. They could use that much. They take that and discount it. Then in another 90 days, they would have that much more; it might have

been originally a six months' note; but three months has run on it, and it still has 90 days to run. They can rediscount all of that. And all through the three months' period they will have other paper accumulating which they can rediscount. And then there is the sense of security the banker can feel, so that he can do his business with confidence and say to his customer, "John, you can get the money you need"—and knowing that he can give it to him. That is worth a whole lot in the banking business.

Senator CRAWFORD. Why not make it optional, so that if he feels that he can get any benefit out of it he can go into this; and if he can not get any benefit from it he can stay out?

Mr. WEXLER. It must be optional. If it is not optional, it has to be made so good and advantageous that banks will come into it anyhow; and if it is made that good, it does not need to be compulsory.

Senator CRAWFORD. But this is made compulsory.

Mr. WEXLER. I know, and that must be changed.

Senator CRAWFORD. Well, I will only say this, and I will not keep you any longer: I have talked with bankers in my State, and the best and most representative men, and they said, practically, that they would not have occasion to use this rediscount privilege of the regional reserve banks.

Mr. WEXLER. Well, I have heard a good many say that, and I thought so. When we first considered this bill I objected to the 60 and 90 day provision. I said, "We objected to the 60 and 90 day provision." I said, "We have not enough paper of that kind;" and I looked through our portfolio, and I found that we had twice as much as we needed.

(Whereupon, at 5.30 o'clock p. m., the committee adjourned until to-morrow, Wednesday morning, September 3, at 10 o'clock.)

WEDNESDAY, SEPTEMBER 3, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, Reed, Shafroth, Hollis, Nelson, Crawford, McLean, and Weeks.

The CHAIRMAN. Mr. Forgan, who is your next representative?

Mr. FORGAN. Mr. Wade.

The CHAIRMAN. Mr. Festus J. Wade, of St. Louis?

Mr. FORGAN. Yes, sir.

Senator WEEKS. Mr. Chairman, I believe Mr. Wexler had not completed his testimony last evening at the time the committee adjourned. There are two or three Senators who desire to ask him questions. I should like to ask some myself.

The CHAIRMAN. I will ask Mr. Wexler, then, to continue until the members of the committee have finished with their questions. Senator Hitchcock, may I ask you to preside while I attend a call to the Committee on Foreign Affairs?

Senator HITCHCOCK. Certainly, Mr. Chairman.

I believe, Senator Weeks, that you desired to ask Mr. Wexler some questions?

FURTHER STATEMENT OF SOL. WEXLER, OF NEW ORLEANS, LA.

Senator WEEKS. Mr. Wexler, how many banks make your bank a reserve agent?

Mr. WEXLER. Our particular bank?

Senator WEEKS. Yes.

Mr. WEXLER. Well, I could hardly answer that just offhand. We have about, I should say, 450 banks.

Senator WEEKS. Well, are those generally located in Mississippi and Louisiana?

Mr. WEXLER. Mississippi, Louisiana, southern Alabama, eastern Texas, southern Arkansas and western Tennessee.

Senator WEEKS. Well, you are naturally in pretty close touch with those banks, are you not?

Mr. WEXLER. Yes, sir; very close touch.

Senator WEEKS. It is currently reported that country banks, generally speaking, are more favorable to the pending legislation in its present shape than large banks; and the intimation is made that there is some coercion to bring the country banks into line in favor of this legislation. Do you know of any such thing?

Mr. WEXLER. No, sir; I do not. I have rather observed the contrary. I found that the greatest objection to the bill has arisen from the smaller banks. I had occasion to go to the little city of Hattiesburg, Miss., at the request of a group of bankers about 10 days ago, for the purpose of explaining the provisions of this bill, and the sentiment there was unanimous against coming into the system unless there were a great many amendments made to the bill.

Senator WEEKS. Well, in the section of the country which you represent, there certainly would be a desire to cooperate with and further the wishes of the administration, would there not?

Mr. WEXLER. Yes, there would.

Senator WEEKS. Your answer to the last question leads me to another question: What proportion of the country banks doing business with you do you think would come in—national banks, I am speaking of now—under this bill, if it were not changed from the form in which it was presented to the House?

Mr. WEXLER. I think a very few, if any.

Senator WEEKS. Suppose the bill is changed to conform to the suggestions made by the Chicago conference, what do you think the result would be?

Mr. WEXLER. I think, as I said in my previous remarks, that fully 80 per cent, and possibly even more than that, would come into the system.

Senator WEEKS. How about the banks in New Orleans?

Mr. WEXLER. I think the banks in New Orleans would all come into the system. After the meeting in Chicago our clearing house had a meeting, at which they expressed themselves unanimously in favor of the system provided these amendments were made.

Senator WEEKS. You made a suggestion in your testimony yesterday, in your argument against establishing (or authorizing) 12 reserve banks, that one bank should not be compelled to loan its resources to another, for sectional and other reasons. There was one argument which came to my mind, which you did not refer to, which seems to me to be especially pertinent, and that is the difference

which will exist in the conservatism with which these reserve banks are managed—the far-seeing board of directors of a reserve bank, believing that they see trouble ahead, will make preparation for it. Now, they having made that preparation for it, would there be any justice, in your opinion, in compelling them to come to the assistance of a board of directors, or a bank, which had been managed in a different way—carelessly and unwisely?

Mr. WEXLER. I think it would be extremely unjust and unfair if a bank which had conserved its resources in anticipation of a stringent condition were forced to impair that condition, which it had so laboriously built up, for the benefit of another section which had pursued a contrary course; and I can readily conceive that such a condition might arise.

Senator WEEKS. Do you understand that these reserve banks would have any particular influence over local business? Would not all local business be conducted by banks as they are now organized?

Mr. WEXLER. They would entirely.

Senator WEEKS. So that, in fixing a rate of discount, that would be simply a general guide, would it not, to the community, rather than a specific reflection on one bank or set of banks?

Mr. WEXLER. It is my opinion that the rate of discount would really be fixed by the conditions existing in that section at that time. The function of the Federal bank would simply be to promulgate, in a sense, that rate; the rate would not really be made by the bank; the rate would be made practically by all of the other banks in that section, by the conditions prevailing and the demands for money, whether scattering or active; and the Federal reserve bank, if properly managed, seeing these conditions and taking notice of them and properly diagnosing them, would promulgate a rate that fitted that situation.

Senator WEEKS. What have you to say about the reserve banks in different sections of the country establishing different rates? It has always seemed to me that one of the strongest arguments in favor of one reserve bank is that every section of the country, as far as the reserve banks of the United States are concerned, would be enabled to get rediscounts at the same rate; that a bank in Arizona, for instance, if it had the paper of the qualified class, would be able to get its accommodation at the same rate as a bank in New York.

Mr. WEXLER. Yes, sir.

Senator WEEKS. And that it would put all sections of the country on the same basis. What do you think of the policy of allowing different rates to be made by the reserve banks in different sections of the country?

Mr. WEXLER. I do not think that different rates should be made by different reserve banks in different portions of the country. I think any such action would be extremely unpopular. I believe that if these banks are to enjoy the privileges which are to be granted them by the Government, the whole people should receive the same benefit, as far as rate is concerned.

But one of the strong arguments, to my mind, against a number of regional banks is the difficulty which the Federal reserve board, isolated from the various Federal reserve banks and not composed of

representatives of each section, are going to find in fixing a rate that will properly fit the conditions; whereas a central bank with representation from various sections of the country, even though controlled by the Government, having its fingers on the pulse of the whole commerce of the country, whose duty it is to oversee all of the commerce and not that of any particular section, would be in a better position, in my opinion, to establish a rate, or, rather, to promulgate a rate, in accord with the prevailing conditions at that time throughout the country.

Senator WEEKS. Well, would not fixing the different rates by different reserve banks militate directly against the section of the country which you represent, and the undeveloped sections of the West, and be favorable to the metropolitan centers?

Mr. WEXLER. Undoubtedly. I have not understood that this bill contemplates, however, the Federal reserve board making a different rate for the different sections.

Senator WEEKS. Oh, I think it does.

Mr. WEXLER. What was that?

Senator WEEKS. I think it does; distinctly so.

Senator NELSON. It does not really contemplate it; but it is undoubtedly within the power of the board.

Mr. WEXLER. It is undoubtedly within the power of the board, yes. But I have not ever believed that public opinion would ever stand for their making a lower rate in one section of the country than they do in another. I believe that would be immediately met with most serious resistance.

Senator WEEKS. The original bill directly provided for that.

Mr. WEXLER. It gave them the right to fix rates. It would be very bad, if they established a different rate.

Senator WEEKS. Well, fixing "rates" is different from fixing "a rate," is it not?

Mr. WEXLER. Undoubtedly. They have the power. But it would be very bad if they fixed a different rate in one section from that fixed in another section.

Senator WEEKS. That would not necessarily mean, however, that the borrower in Mississippi would borrow at the same rate that the borrower in Illinois would of his own bank?

Mr. WEXLER. No.

Senator WEEKS. But it would mean that the rediscount coming from the reserve bank would be "on all fours" in all sections, would it not?

Mr. WEXLER. That is it exactly.

Senator WEEKS. That is all I wish to ask now.

Senator NELSON. I would like to ask a few questions. Is not this, in its essence, under this bill, really a central bank with 12 headquarters; with 12 regional banks under one administration; is it not, after all, in its essence, equivalent to one central bank?

Mr. WEXLER. It is in one sense; and it distinctly is not in another sense. The ownership of the stock of each of the Federal reserve banks, being entirely different from that of every other Federal reserve bank, makes it distinct and gives to each bank a certain local interest antagonistic in a sense to all the other 11 regional reserve banks. As far as the control and management is concerned,

within certain limitations it would be under the Federal reserve board, as provided in this act; but——

Senator NELSON (interposing). Excuse me, there is one other question I want to ask just at this time.

Mr. WEXLER. Yes, certainly.

Senator NELSON. Is not this currency which it is proposed to issue under this bill, aside from the fact that it purports to be the promise of the Government—is it not, in its essence, asset currency based upon the assets discounted? Is not that what the banks who obtain it do? They obtain it on their commercial assets—on their commercial paper?

Mr. WEXLER. They obtain it upon commercial paper, which is presumed to be a good asset——

Senator NELSON (interposing). Yes; but I mean does not that amount in substance to an asset currency?

Mr. WEXLER. It does, yes; except that in addition to the asset which it has, it maintains a gold reserve.

Senator NELSON. Certainly.

Mr. WEXLER. Sufficient for the constant retirement of these notes——

Senator REED. How much reserve?

Mr. WEXLER. This bill provided 33⅓ per cent reserve.

Senator REED. Pardon me for interrupting you now. I will ask my questions later.

Senator NELSON. Certainly. Mr. Wexler, what is the radical defect of our present system of currency?

Mr. WEXLER. The radical defect of our system of currency is that it is based upon a Government bond as security, and the volume of it has absolutely no relation to the requirements of the business of the country, but only a relation to the value of Government bonds.

Senator NELSON. Yes. Well, you will admit this, Mr. Wexler, that that paper currency has been, so far as the public is concerned—the bill holders—a safe and sound currency?

Mr. WEXLER. Absolutely.

Senator NELSON. It could not be better?

Mr. WEXLER. Well, yes; it could be better.

Senator NELSON. I mean as to quality; the quality of the money as money?

Mr. WEXLER. Well, it could be better in that respect. That would bring on a long argument; but I will say it could be better. The evidence of it lies in the fact that when these Government bonds are selling at 98, the notes are secured by those Government bonds; so that the note you have is only worth 98 cents on a dollar, if you come down to the final analysis of it.

Senator NELSON. Now, we come down to this question: Why could not we build on the present system, and gradually allow the national banks to do what you propose to have these reserve banks do; in substance, issue notes, to some extent, if not altogether, on their assets—on their commercial assets?

Mr. WEXLER. The objection to that is that we might come back to the old days of wildcat banks before the Civil War, when you would have to keep a little book in your pocket to see the value of the different notes that you might have.

Senator NELSON. Yes.

Mr. WEXLER. And in a country like this, as large as the United States and that has so many banks, I do not know that any system permitting all of these banks to issue notes would be feasible. Of course in Canada you have a condition where the banks are permitted to issue their own notes; but you have a very small number of banks, with a great number of branches; and it has worked in Canada.

Senator NELSON. Well, one part of your proposition is that these notes should be issued, not, as proposed in the bill, by the Federal Government to be the promise of the Government, but they should be issued by the respective reserve banks and be the promises of those banks? That is a part of your proposition, is it not?

Mr. WEXLER. Not exactly. The idea is that they should be issued from the Federal reserve board——

Senator NELSON. Yes.

Mr. WEXLER (continuing). To the respective Federal reserve banks, and should be designated by a number and the redemption chargeable against the particular bank to which they were issued, and that all of the Federal reserve banks should be responsible for the whole system of notes. That is the suggestion that you will find that we had. Shall I explain that to you a little further?

Senator NELSON. I understand; but that is not in the bill?

Mr. WEXLER. That is in the bill.

Senator NELSON. That it makes each bank liable for its own issue? Is that not the plan of the bill?

Mr. WEXLER. The plan of the bill makes each bank liable, and then makes the Government again liable behind the bank.

Senator NELSON. Yes; but it does not make the whole group liable?

Mr. WEXLER. I do not think it does, unless it has been changed in this bill of the 29th.

Senator NELSON. I notice in the bill that provision is made for the redemption of these notes in gold or lawful money. That would mean, under our present system of currency, silver and greenbacks as well as gold, would it not?

Mr. WEXLER. Yes.

Senator NELSON. Do you think they ought to be redeemable in anything but gold?

Mr. WEXLER. I do not. I think that we should maintain religiously the gold standard that has been established in this country.

Senator NELSON. And then you would have these reserve banks provide for a gold redemption?

Mr. WEXLER. Gold reserve.

Senator NELSON. Gold reserve. Well, do you think 33 per cent is sufficient?

Mr. WEXLER. I think 33 per cent would be sufficient; yes. We have suggested that there should be 40 per cent.

Senator NELSON. Yes.

Mr. WEXLER. We have raised it, because we believe that it would be better to make the notes so absolutely good and impregnable that we would rather err on the side of too much reserve than too little reserve.

Senator NELSON. That is all for the present.

Senator HITCHCOCK. Senator Reed, do you wish to ask any questions?

Senator REED. I have a number of questions I would like to ask now, but I think perhaps some of the other members of the committee might desire to interrogate the witness farther now, and I can ask mine later.

Senator WEEKS. I have some questions I should like to ask, if Senator Reed does not wish to go on now. Is there any unusual emergency existing in banking, financial, and business conditions in your section of the country at this time, Mr. Wexler?

Mr. WEXLER. Well, I can not say that conditions are unusual; no. We have at this period always a very stringent demand for money. We move four agricultural crops at one time, which requires a large amount of reserve money, which goes out to the cotton pickers and the sugar-cane and rice harvesters; and that, of course, attacks the reserve of the banks and diminishes their lending capacity; and our country is not wealthy enough, from its own resources, to take care of this seasonal demand at that time.

Senator WEEKS. Well, is your condition at this time different from what it was a year ago or two years ago?

Mr. WEXLER. It is somewhat different, due to the fact that our sugar section has suffered two quite serious reverses in the crop, and is now threatened with annihilation by the proposed removal of the sugar tax—which, of course, has had the effect of injuring sugar credits, causing a general feeling of unrest in that section; and that has had somewhat of an effect upon our condition just at this time.

Senator WEEKS. I am sorry I am not in a position to prevent that annihilation which you are anticipating. [Laughter.]

Mr. WEXLER. I am sure that I am sorry, too.

Senator REED. Have you finished with your questions, Senator Weeks?

Senator WEEKS. I just wanted to ask one more question. Is the financial stringency coming over the country different, in your judgment, from what it is at this season of the year all years?

Mr. WEXLER. Do you mean to ask whether the condition is more stringent this year than other years?

Senator WEEKS. Yes; year in and year out.

Mr. WEXLER. Yes; it is just a little more so. We have the promise of very abundant crops; the larger the crops the more money it takes to handle them; and, as I say, we have passed through several years of devastation of cotton crops by the boll-weevil throughout our section; and then we have had one year of early frost in sugar, and a second year of disastrous overflow in the same section; and that has reduced the available funds of people engaged in these lines of business, and it has naturally required more credit to take care of them during this period. We are in that condition just now.

Senator WEEKS. You are speaking of the section around New Orleans, are you?

Mr. WEXLER. Yes; the section within a radius, I should say, of 200 miles around New Orleans.

Senator WEEKS. Well, you do not anticipate any particular trouble, do you, in harvesting your crops?

Mr. WEXLER. No; I do not. I think we will get through the season and take care of our crops very nicely, and I see nothing to cause us any anxiety or to cause financial distress other than to give us an uncomfortable feeling during this period of greatest demand.

Senator WEEKS. Which you always have?

Mr. WEXLER. Yes; which we always have to a greater or less degree.

Senator REED. Mr. Chairman, I move that the witness be allowed to sit down during the examination. It is too long a strain upon a man.

Senator HITCHCOCK. Without objection, the order will be made.

Senator REED. There are a number of questions I desire to ask; and as it will perhaps take some time I thought perhaps the witness would prefer being seated.

We frequently hear the statement, Mr. Wexler, that we have the poorest banking system in the world. Do you agree with that statement?

Mr. WEXLER. I do, emphatically.

Senator REED. I want really to get your judgment about that.

Mr. WEXLER. I am going to give you my very best judgment.

Senator REED. Do you mean by that that it is the most unsafe to the country, or the most unsatisfactory to the bankers?

Mr. WEXLER. I mean that it is most unsafe to the country, and that it does not meet the requirements of the business of the country. I think the banker is least interested in the faults of the system, from a pecuniary standpoint, than any other class of people in the country.

Senator REED. Will you tell the committee, in just as terse a way as you can, what are the present defects or faults of our system which make it the poorest banking system in the world?

Mr. WEXLER. Well, the greatest defect is that, in the first place, the requirements for currency vary at certain seasons of the year. That you can readily understand. It varies in one year from another year. In other words, during the crop-moving period a greater amount of circulating medium is necessary to pay labor than during the growing period.

Then, again, in years when manufacturers are thoroughly employed, more money is paid out for pay rolls than in years when labor is not thoroughly employed. Therefore there is a constant variation of the amount of circulating medium necessary for carrying on the business of the country.

Now, the only circulating medium that we have is the reserve money, which is the basis of our credits; and when the greater demand for this circulating medium comes along it attacks our reserves; it takes the money which is the basis of our credits out of the banks; it circulates them for a longer period in the pockets of the people and in cash drawers, thus reducing the credit facilities of the banks. Then, again——

Senator REED. Now, Mr. Wexler, permit me to interrupt you. Can you put that reason No. 1 of yours into one short statement? You have added an explanation.

Mr. WEXLER. Yes.

Senator REED. You say the principal evil is what—lack of flexibility?

Mr. WEXLER. I think I can tell you. The principal evil is the lack of elasticity of our circulating medium.

Second, the inability to rediscount, having no place to which a bank can go when it has exhausted its own credit facilities.

Senator NELSON. Excuse me just here. In other words, you mean there is no general credit reservoir for the banks to resort to?

Mr. WEXLER. Absolutely none. Now, the next is the fact that the entire reserves of the country are scattered in some 20,000 to 25,000 little piles, where they are ineffective, instead of being concentrated in one great reservoir where they would be effective.

There are many other defects that would require explanation. All these should have explanations, but you have asked for it as tersely as possible.

Senator REED. I have asked for it because I wanted to call for an explanation later, but I wanted first to get the heading.

Mr. WEXLER. Yes.

Senator REED. Taking up the question of flexibility——

Senator NELSON (interposing). I think "elasticity" is a better term.

Senator REED. Let me change that again. I want to get some light regardless of this bill.

Mr. WEXLER. Yes, sir.

Senator REED. So far as I am concerned, I am wedded to no bill. If we are going to legislate in regard to currency and banking generally, I would like to see it done in the best possible way. So the questions that I am asking I would like to have answered just the same as though this bill had never been proposed or dreamed of. You speak first of lack of flexibility or elasticity. Just what do you mean by that?

Mr. WEXLER. I mean by that that the present circulating medium does not expand and contract according to the requirements of business.

Senator REED. Now, why?

Mr. WEXLER. Because it is based upon Government bonds as security, and can only be issued against security of this character.

Senator REED. Does not that apply now more to the general volume than to the matter of flexibility in distribution?

Mr. WEXLER. No; it does not. If the supply of Government bonds is small, as has been the case several years ago, and the demand was great and bonds went to a price of 107, or 108, or 109, it would be extremely unprofitable for any bank——

Senator REED. Yes.

Mr. WEXLER. To take out circulation, even though that section of country required a greater amount of circulating medium.

Senator REED. Pardon me; I do not want to cut your answer off so that you are not satisfied with it——

Mr. WEXLER. No, sir.

Senator REED. But, having a sort of idea in my mind when the question is answered, I will take the liberty of cutting you off for a moment.

Mr. WEXLER. Yes.

Senator REED. You have answered now, so far as I need to have you answer my last question. My next question is, if there was a sufficient amount of securities—Government bonds—so that the banks could acquire them at par and then take those bonds to the Government and get money, would that relieve the particular evil we are now discussing?

Mr. WEXLER. No, sir; it would not, because after that circulation was out and was no longer needed, there is no provision for the elimination of it, or the retirement of it; and a plethora is just as bad as too little.

Senator REED. Well, that would get you the money in the first instance, anyway, would it not?

Mr. WEXLER. That would get it, yes.

Senator REED. Then we come to the question of retirement as a separate proposition. Do I understand you, then, to mean this, that if, for instance, your bank was in need of money and Government bonds were easily obtained by your bank and other banks at par, if they could take those bonds to the Government and get money upon them that would relieve the difficulty, so far as giving you the money in the first instance was concerned? Would that answer the objection?

Mr. WEXLER. No; it would not. That would give you the circulating medium necessary for moving the crops, and the pay roll requirement during that particular period.

Senator WEEKS. Yes.

Mr. WEXLER. But would not give you 1 cent more money or currency facilities, because just as much money as you would get for the notes you would have to invest in the bonds.

Senator REED. Yes; that is just the point I want to get to. You take $1,000,000 and buy $1,000,000 worth of Government bonds. Now, you have not got that $1,000,000 any more?

Mr. WEXLER. Not at all.

Senator REED. But you have got an interest-bearing security, which if it was great enough, would pay you a return upon your $1,000,000?

Mr. WEXLER. Yes.

Senator REED. Then, having invested in these bonds which bear you an interest, you go and get $1,000,000 of money, and you have that money; so that you have an interest-bearing security deposited with the Government, and you have $1,000,000 to use. Now, if the interest was high enough, I presume there would be a good deal of money invested in these bonds, would there not?

Mr. WEXLER. I do not think there would. I do not believe that there is any rate of interest that any Government of the standing of this could afford to pay that would make it attractive for bankers to withdraw money from the channels of trade for the purpose of investing in Government bonds, except in periods of governmental stress, when the patriotic side would naturally appeal to citizens, and not as far as the investment is concerned.

Now, as to the circulating mediums, banks might, if Government bonds were maintained constantly at par and the banker felt that he could go and redeem the bond at any time he saw fit at the Treasury Department for par, he might be willing to increase the circulating medium, when more currency was required for business, by purchasing bonds and using that credit to issue a note against it—which is all it amounts to. The bank only makes a very small percentage on the transaction. But that would not furnish an increased credit which may be kept at certain times to prevent the whole banking and credit system of the country from breaking down. It has absolutely no relation, you understand, to that side of the question.

Senator REED. Mr. Wexler, I was a little inclined to the opinion you now express; that is to say that when the Government permits a bank to buy $1,000,000 worth of bonds, it then locks up $1,000,000 of the bank's money; and then by issuing another $1,000,000 it seemed to me that it had not very greatly expanded the currency. Yet I

understood you to say that the reason we did not have a flexible currency was because there were not enough bonds which—you said something like that, I believe?

Mr. WEXLER. No.

Senator REED. Well, at any rate, I am trying to get your views.

Mr. WEXLER. Let me get this very clear, because it is important. The statement is that the present circulating medium does not bear any relation to the requirements of the country for circulation, and that there is no means in the possession of bankers at the present time to expand this circulation to meet an additional requirement, or to contract it when it is no longer needed. Now, that is the proposition as far as the currency is concerned.

Senator REED. And if you had more bonds, it would not help out much?

Mr. WEXLER. Absolutely not.

Senator REED. And that brings us, then, to a second proposition. I take it now (and I will ask my question in this leading form in order to bring it out more clearly) that what you want is to be able to take the assets of the bank, and upon those assets to get more money; that is, you want, directly or indirectly, to effect that result?

Mr. WEXLER. I want to be able to convert the credit which I extend to an individual from one form to another form. Let me make it clear: If you come into the bank and borrow $1,000, we take your note for $1,000, and we give you in exchange for it our credit, which you can use. You could not use your own credit generally. And we give you our credit. How do we give it to you? We give you credit on our ledger for the net proceeds of that note of $1,000. Now, the result of that operation is that we owe you just as much as you owe us; that is correct, is it not?

Senator REED. Yes.

Mr. WEXLER. Now, as long as you can pay your bills and carry on your business with checks, you draw checks against that $1,000, and you gradually reduce this liability from us to you in that way.

Now, whenever you need cash—currency—and you come and draw that from the bank, we should be in a position to give you our obligation—a note, and to change the form of that credit from a book credit usable by check, to a note credit, usable by circulation—which privilege we do not have to-day.

Senator NELSON. In other words, exchange your note for his note?

Mr. WEXLER. That is the whole proposition.

Senator REED. In other words, issue money?

Mr. WEXLER. Issue, not money, but issue evidences of credit; issue obligations.

Senator REED. Well, bills that circulate as money?

Mr. WEXLER. Yes.

Senator REED. In other words—let us just abandon the text of it and go across lots—if you are running a bank and you have $1,000,000 of notes representing loans to your customers, and you have paid the last dollar out of your till that you can pay out in safety, you have to stop?

Mr. WEXLER. That is it.

Senator REED. But if you took that $1,000,000 of notes and transformed it into what I am going to insist on calling money—although there is a technical difference, as you put it——

Mr. WEXLER. Yes.

Senator REED. Transform it into bank bills, or bank money——

Mr. WEXLER. Notes.

Senator REED. By some process—then you have multiplied your ability to serve your customers, have you not?

Mr. WEXLER. Precisely.

Senator REED. Now, I take it that what you want, then, in the way of flexibility or elasticity of currency gets down to this: You want to be permitted, by some device or plan, to take the notes of your customers, and either against those notes or against your ownership of those notes, issue bank paper; or you want to be able to put them up with the Government, or some agency of the Government, and have the Government issue the money on them?

Mr. WEXLER. Well, not exactly. I want to be——

Senator REED (interposing). I am not speaking of what you want.

Mr. WEXLER. I understand.

Senator REED. But this plan involves this idea of flexibility—involves one or the other of those propositions?

Mr. WEXLER. Well, the flexibility is only a side issue of the proposition you have just made. One is a question of circulating medium, and the other is a question of credit.

Senator REED. No; I am talking about just how you are going to meet this kind of an additional demand at times?

Mr. WEXLER. That is it. Here is the idea: If the condition existed in our bank that you have referred to, we would want the privilege of taking $1,000,000 of good customer's paper maturing in 30, 60, or 90 days, and not beyond 90 days, to a central reservoir of credit, which we will call, for convenience, a central bank, which has the note-issuing privilege, and which could take these obligations of these various farmers, merchants, and manufacturers with our indorsements—which is not in a form of credit that we can use—and exchange for it their credit in the form of a bank note which we can use.

Now, what happens? We have got this $1,000,000 of the bank notes of the central bank, and the central bank has $1,000,000 of the notes of various customers with our indorsement. Now, our customers who have book credits draw their checks upon us, and we pay out the bank notes which we have received from the central bank.

Now, this bank note does not count as reserve for any bank. You have drawn $50 in cash, we will say, and you have taken it over and paid it to your tailor, for instance. He has no use for it except to put it in bank. He deposits it in another bank. When that bank gets it, it does not count as reserve for that bank. It has answered its purpose, that note has. It has performed all the functions for which it was issued. It is deposited in some bank by your tailor, and that bank in turn deposits it in the central bank, probably; and that note will go out of existence.

Now, in the course of 30 days, 60 days, or 90 days this paper which we have taken to the reservoir of credit and rediscounted has matured. Now, what happens? The man who owes the money, the maker of the note, has had to accumulate just as many of those notes which the central reserve bank originally issued as may be necessary to go and give to the central reserve bank to get his note back. So you have constantly this exchange of credit going on, and when the

requirements of credit fall off and are no longer needed the notes go back into retirement, because they have necessarily been used to meet the original rediscounted obligation. So that a note issued in this manner, and it is the only manner possible, adjusts itself at all times to the requirements of the country for credit. Do you understand that?

Senator REED. Yes. I think I understand. I have no doubt your statement is illuminating; but I want to come down to the present. You have told me how it works out.

Mr. WEXLER. Yes.

Senator REED. But I want to see if I am right on this proposition, that, at bottom, what you claim is necessary for flexibility or elasticity means this, that there must be a plan devised by which the bank can take its assets—its commercial assets—I may be wrong in the use of some technical terms, but you know what I mean.

Mr. WEXLER. You are correct.

Senator REED. It must be able to take its commercial assets and convert them into what we ordinarily call money; that is, bank notes, or Government notes or some kind of notes, must be given to the bank in lieu of these securities which it puts up?

Mr. WEXLER. Yes.

Senator REED. Now, that is the thing that is necessary for elasticity. And it can not be reached, if I understand you correctly, by the plan of having the banks buy bonds, because that absorbs the money—an amount of money equal to the amount of money which they have issued. Am I correct, now, in that?

Mr. WEXLER. You are correct; yes.

Senator REED. Now, that is what I wanted to get at, and I was then ready to pass to another subject.

Senator WEEKS. Before you do so, I wanted to ask one question or make one comment. I will ask Mr. Wexler if the volume of these notes which you have been discussing does not depend on the needs of the business community, and also on a sufficient reserve being maintained against them?

Mr. WEXLER. Of course no bank is going to take out of its portfolio notes of its customers and rediscount them unless there is a need for the additional credit facility in that particular section, because by so doing they are sacrificing a part of the interest which they would earn on the paper for the remaining length of time to maturity. In the second place, the central bank would not be permitted to rediscount and issue its notes for such rediscounts unless it had a gold reserve of the amount which may be prescribed in the bill, anywhere from 30 to 50 per cent, for the redemption of these notes when they appear at their window, which may occur the next morning.

Senator REED. Senator Nelson wanted to ask a question.

Mr. WEXLER. Yes, sir.

Senator NELSON. Mr. Wexler, does not this, in its primitive form, amount to this. Senator Reed comes to your bank and says:

I want to borrow $1,000, or $10,000, and will give you a note.

You say to Senator Reed:

How do you want this? Do you want it in the form of a credit on our books that you can check against, or do you want it in the form of notes?

Mr. WEXLER. Yes.

Senator NELSON. And Senator Reed says:

At present I have got a need for it in the form of little bills. But it is little bills. I do not want checks; I want currency.

And instead of giving him the credit for $10,000 on your books, you issue the promissory notes to Senator Reed and he uses them. Now, that is a transaction that arises from a commercial demand, is it not?

Mr. WEXLER. Yes, sir.

Senator NELSON. It arises from trading?

Mr. WEXLER. Yes, sir.

Senator NELSON. And not by any artificial method of going and buying bonds?

Mr. WEXLER. Absolutely not. It is the result of an absolutely commercial transaction.

Senator NELSON. And it is for the benefit of Senator Reed?

Mr. WEXLER. Yes; not for the benefit of the bank.

Senator NELSON. Whether he wants that in the form of a checking account or in the form of currency that will pass as money?

Mr. WEXLER. Yes; that is it.

Senator REED. Now, I want to spend a minute more on this question. You say that this system responds to commercial demands. By that I understand you to mean this: There are seasons of the year when the deposits pile up in your banks and you have so much money that you can not loan it out; that is, you have a large surplus of deposits. Then there comes along a season of the year when nearly everybody wants to borrow money.

Mr. WEXLER. Yes.

Senator REED. And you get down to a point where you have to begin to refuse your customers whom you would like to accommodate?

Mr. WEXLER. Yes.

Senator REED. And so you want to be in a position to stand those conditions?

Mr. WEXLER. Yes, sir.

Senator REED. And you say that this system—I grant you, now, that the plan which you outlined would meet that condition—I want to see whether there is another side, whether it is not possible, and entirely possible, for a bank (not a good bank, not a bank that is properly managed) to issue these notes for some other purpose than merely to meet the legitimate demands of a community. Why is it that a bank having this power of multiplying its assets—for that is what it amounts to, loaning them and reloaning them—might not, if it saw fit, use this plan for a vast expansion of the currency, for an inflation?

Mr. WEXLER. Well, there are two distinct checks upon it. One is that a bank is required to carry always on hand a certain gold reserve against its own demand liabilities.

Senator REED. Well, that is 33 per cent, is it not?

Mr. WEXLER. No; that is, under the present law it varies from 15 to 25 per cent, according to whether they are country banks or reserve city banks.

Senator REED. That is what I am speaking of.

Mr. WEXLER. And under the new law there is some reduction in that reserve requirement.

Now, in the next place, where does this bank go to get the additional accommodation? It goes to the central bank. Now, the central bank is not permitted to discount paper, except such as arises from commercial transactions, and such as matures not beyond a certain stipulated period. Now, would you, as a safe banker, expand your credits upon a class of paper that you could not go to the central reservoir of credit and rediscount? You certainly would not if you were conservative.

Senator REED. You have put in figures the qualification which takes away the danger——

Mr. WEXLER. That is in the bill.

Senator REED (continuing). When you say "the safe banker." But all bankers are not safe; and the country once had an experience, years ago, I am glad to say, when the whole thing was very unsafe. I am talking now about how this plan might be abused.

Mr. WEXLER. Oh, I can not see——

Senator REED (interposing). I am not saying it might be; I am asking you what you think.

Mr. WEXLER. I understand. I do not think there is any way they could abuse it, because there would be a definite limit to the amount of paper of this kind that they could take, because after they had all they could reasonably take care of from their own resources, there would be no place they could go to rediscount the paper. They could not go to a cental bank and get any money on that class of paper.

Senator REED. Well, as long as they wanted to borrow and had reasonably good credit——

Mr. WEXLER. Yes.

Senator REED. They could continue to come and borrow money, and the bank could continue to furnish it, because it would have an unlimited supply of money as long as it had an unlimited supply of security?

Mr. WEXLER. No; but the class of securities which it could rediscount at the central reserve bank would be limited to that which was necessary for carrying on the commercial and agricultural and industrial business of the country.

Senator REED. Well, but who passes upon that?

Mr. WEXLER. Who passes upon the class of that paper? The directors of the Federal reserve bank, and the Federal reserve board, and the banker himself.

Senator REED. We have a little different thought in mind, Mr. Wexler.

Mr. WEXLER. Yes, sir.

Senator REED. Of course, if the central bank exercises the same kind of espionage—I do not use the term offensively——

Mr. WEXLER. No.

Senator REED (continuing). Over the bank which comes to it for money—that you exercise over me if I come, namely, you know something about the business that I am embarked in; you know something about my capacity and ability; you know something about my personal integrity and honor; and, taking those matters into consideration, you figure how much you can safely let me have.

Now, of course, if that kind of policy was pursued by the central bank, and wisely pursued, then there would not be a great stretching

of credits. But does it not get down after all to the question of whether there will be an extension, an inflation, and get down to the question of the management of this central bank, so that if it be conservative and wise and prudent there would be no great expansion, but if it should be otherwise, why there might turn out to be an expansion?

Mr. WEXLER. No; I do not think there could, Senator Reed. There is another very strong check upon expansion, and that is the gold reserve required against the note, which the central reservoir of credit would issue.

Senator REED. That is from 33 per cent to——

Mr. WEXLER. From 33 to 40 per cent. Now, we have a bank which had reached the point where its notes which it had outstanding—we will say that the reserve requirement of that bank was 40 per cent, and it was down to 41 or 42 per cent; why, its ability to continue to extend credit would stop; it could not go beyond that. It would not be permitted to do it, except in times of emergency or stress, when they might be permitted to waive the reserve requirement. But the management of the central bank would always have in mind the necessity of paying the gold against those demand notes which were given out for credit and which might appear at the window for redemption the day after they were issued. And that will prevent any undue and extraordinary expansion of credit.

Senator REED. How would this central bank put a limit or a brake upon the natural tendency to expansion? Would it be by raising rates of interest to the member banks?

Mr. WEXLER. Yes; that would be one way to raise it.

Senator REED. But after all do you not get down to the question—is not there a real, genuine danger of an inflation, provided you get a management of that central bank which is not absolutely wise and prudent?

Mr. WEXLER. I think the danger is very, very slight, Senator. If that bank obeys the law (which it will have to do) and maintains the gold reserve required under the law, and observes the ordinary common sense that I can not conceive that it would not exercise, when the demand was getting too great or raising the rate where it would not be profitable for the borrower to take it—I can not see that under those circumstances there can be any great expansion arising from the organization of an institution of that kind.

Senator REED. Do you think that this right to raise rates of interest then, ought to be vested in the management of the central bank?

Mr. WEXLER. Yes; unquestionably.

Senator REED. And the management of that central bank, after all, then becomes the arbiter of the whole financial scheme by raising and lowering the rates of interest—by raising rates of interest it stops undue expansion; by lowering rates of interest it invites——

Mr. WEXLER (interposing). It encourages trade?

Senator REED (continuing). Trade and expansion.

Mr. WEXLER. Yes.

Senator REED. Now, I am asking you a great many questions that may seem to the bankers present to be unnecessary——

Mr. WEXLER. Not at all, Senator.

Senator REED. But you all understand that I am just a farmer, trying to get some light.

Mr. WEXLER. Senator, let me make one appendix to my remarks: That is, that you remember that these notes must be redeemed whenever they are presented at a bank. Consequently, you can not have any very great expansion. The paper that the central bank rediscounts, maturing in 60 or 90 days, is coming due all the time for payment; and in order to pay its own obligations arising from the indorsement of the discounted paper——

Senator REED (interposing). Why can not they be renewed and the renewals be put in place of them?

Mr. WEXLER. Well, but in the meantime it must be paid. The central bank would never renew an obligation; there would never be a single discounted note renewed by it. The bank originally discounting might renew for the customer or individual, and in the course of time, if they wanted the money they might rediscount the new obligation; but in the meantime the note originally issued for which notes would have come from the central bank would have been paid and the bank notes retired. It may come out again if the bank requires it; but the bank notes issued against that rediscount would have performed its functions. It would have circulated, done its work, come back, and gone out of business, or, which is the same, an equal amount of the bank notes would have taken this course.

Senator REED. Now, what would be the great possible expansion of the currency under a plan with a central bank and a gold reserve of 40 per cent? How much could that by any possibility expand the currency? And when I say "currency" I mean money.

Mr. WEXLER. Well, that is something I do not believe any man could answer with sufficient accuracy to be of any value. I believe that in the fall of the year we need an expansion.

Senator REED. Well, I am asking the possibilities, not what you need, but the possibilities of expansion under this plan. Of course, if you gave a 40 per cent reserve of gold, that must mean that when the gold is exhausted you——

Mr. WEXLER (interposing). Well, Senator, there have been some accurate calculations made on that particular subject by some of the gentlemen who are going to follow me, from which you may be astonished to see that there will not be any expansion at all; in fact, we are in considerable doubt, and we rather lean to the belief that it is going to bring about contraction if we do not have considerable amendment to this bill. In other words, we have not been able to find where we are going to get gold enough to carry the reserves that are necessary.

Senator REED. I am not talking about the bill. I am talking about the plan of a central bank which has the right to issue money, and which must keep a 40 per cent gold reserve, and which can keep on issuing money, as far as the law goes, as long as it can maintain that 40 per cent of gold reserve. Now, what would be the possible expansion of our circulating medium under those circumstances?

Mr. WEXLER. Well, I think the only way that that can be answered is to say that the possible expansion would be equal to the excess amount of gold which there might be in the country. In other words, if our crops here were very abundant, and foreign crops were very small, and the balance of trade was largely in our favor, and we drew from Europe two or three, or four, or five hundred millions of gold in payment of our crops, then that gold coming into this country

would form the basis of just that much more credit, and the expansion would be measured by the extent of that gold that might be available for credit purposes. I do not know any other way of answering that question. Some of the other gentlemen might.

Senator REED. Perhaps we can get at it in another way.

Mr. WEXLER. Yes, sir.

Senator REED. At the present time, under the existing system, there is no gold reserve whatever required back of the national bank notes, or "greenbacks," is there?

Mr. WEXLER. The greenbacks have $150,000,000 of gold against an issue of about $350,000,000.

Senator REED. But it is not a safety reserve; it is just here in the Treasury; is that not right?

Mr. WEXLER. Well, they have set it aside for that purpose; and I believe it is held that way. I do not know that there is any particular law that requires it.

Senator REED. Well, there is $150,000,000 of gold back of $350,000,000, you say?

Senator SHAFROTH. $346,000,000.

Mr. WEXLER. Yes, $346,000,000.

Senator REED. So that, in round numbers, you have what—40 per cent?

Mr. WEXLER. A little over, yes; about 43 per cent.

Senator REED. Now, we have Treasury notes?

Mr. WEXLER. The greenbacks are Treasury notes.

Senator REED. I mean gold notes?

Mr. WEXLER. Yes.

Senator REED. Amounting to how much?

Mr. WEXLER. $1,150,000,000, about.

Senator REED. $1,150,000,000. And we have got gold in the Treasury for each of those notes?

Mr. WEXLER. Yes; they are nothing but warehouse receipts for the gold.

Senator SHAFROTH. There are $1,100,000,000 now.

Mr. WEXLER. Well, it fluctuates, just like warehouse receipts for a bale of cotton.

Senator REED. Well, we have that much gold?

Mr. WEXLER. Yes, sir.

Senator REED. Now, where else is there any gold piled up, except just as the banks individually may hold it?

Mr. WEXLER. Well, there is no other in this country available that I know of. There may be a lot of it hidden around that is not deposited in the banks. But when you speak of available gold outside of that in the vault of the Treasury and that held by the banks, well, I do not know of any other.

Senator SHAFROTH. Senator Reed, I saw an account the other day stating that there were $552,000,000 of gold in circulation and in banks.

Mr. WEXLER. Yes, sir.

Senator SHAFROTH. Not gold certificates.

Mr. WEXLER. Yes, sir.

Senator REED. Now, if there are $550,000,000 of gold, and you had paper issued against a reserve of 40 per cent amounting to that, how much would that give you?

Mr. WEXLER. Two and one-half times as much; about $1,230,000,000 of notes.

Senator REED. Well, that would make an absolute contraction in the currency, even if there were $550,000,000 of gold, would it not? When I say "currency" I mean the whole circulation.

Mr. WEXLER. But you have, in addition to that $550,000,000, the $1,100,000,000 of gold certificates which are outstanding, which are just the same as gold.

Senator REED. But is that not included in that $1,400,000,000?

Senator SHAFROTH. No.

Senator NELSON. No; that is outside of that.

Mr. WEXLER. Then you have got $150,000,000 back of the greenbacks, which gives you $1,750,000, which is a very respectable stock of gold.

And if it were all in one place, all in one reservoir of credit, within a very few years the United States would be the commanding commercial and financial nation in the whole world. The business we now send to London or to Paris or to Berlin or anywhere else would come to the United States. We would be invincible from every standpoint. And with the balance of trade in our favor every year, and with good crops, and with gold coming in, we would practically accumulate the gold of the world. They could not prevent it. There is the greatest opportunity for bettering the welfare of our people through the organization of a bank of that kind than anything I know of.

Senator REED. Well, I do not just understand that. I want to understand it if I can. I know so little about money, and that is the reason I am asking you so many questions. How does that follow?

Mr. WEXLER. Well, gold, as you know, is the recognized ultimate standard of measurement of value for the civilized commercial countries of the world. It is the basis of all credit. Why? Because you can take a gold dollar in any country and purchase for it all that you require.

Senator REED. Yes; I understand that.

Mr. WEXLER. You could not take a silver note, for instance, and do it.

Senator REED. I want to know how you can get that gold into the central bank; that is what I want to find out; how it gets there.

Mr. WEXLER. I will tell you how it gets there: The circulating medium that would be carried around in the pockets of the people, and so on, would be these bank notes; and the gold would gradually find its way into the vault of the central bank, because it would never pay out any gold. Nobody would ever pay out a gold note. We would never pay out any, nor would any bank anywhere, nor would the Federal reserve bank ever pay it out, except in the circumstance where a note holder came and said, "I want this note paid in gold." He might have some particular reason for wanting gold in that case.

Senator MCLEAN. Pardon me, you said "gold note"; you meant "gold coin," did you not?

Mr. WEXLER. Yes, sir; nobody would pay out a gold coin except in instances where the holder of the note had some very particular reason for asking for it.

Senator REED. What you mean is this: That whenever a $20 gold piece came into the bank the bank would inevitably drop that into the bottom of its vault and never pay it out unless somebody came up and absolutely demanded payment in gold?

Mr. WEXLER. That is the idea exactly.

Senator REED. Of course if there was any real financial fright or scare which came over the country——

Mr. WEXLER. Yes.

Senator REED (continuing). You would have a good many people at the windows wanting the gold?

Mr. WEXLER. Yes.

Senator REED. Now, if the faith and credit of this big institution ever became seriously impaired, it might have to get up gold very quickly, might it not?

Mr. WEXLER. Well, of course, if the people lost confidence in the note issue and everybody came to the window and demanded the amount in gold, it would require a general liquidation of credit of all the notes of everybody which the bank had, and the system would break down. But that has not been the experience of any other country. As I said yesterday, the Bank of France had no difficulty in paying gold when the Prussian Army was camping in the streets of Paris.

Senator REED. Now, just as to that matter of illustration—you want to settle this question right, you bankers, do you not?

Mr. WEXLER. Yes.

Senator REED. You are more interested than anybody else, and I hope that we also want to settle it right. Do you think, now, that, fairly speaking, we are absolutely safe in assuming that European nations—that their experience can be taken as a safe and conclusive precedent for our country?

Mr. WEXLER. I think with modifications it can.

Senator REED. Now, let me suggest to you, for instance, that the State of Missouri is two-thirds as large as Germany, and it is two-thirds as large as France. You could take France and Great Britain and Germany—I have not figured it up, but I think you can—and drop them down in the State of Texas and still have some territory left. When I say "England," of course I mean England, Scotland, and Wales. I merely mean by that to call your attention to the fact of the difference in territory. Then, I want to call your mind to the fact of the difference of the density of population, the great disparity there is between the population here and there; then I want to call your attention to the fact that the trade there is in settled channels, very much more so than are conditions here; that the country is not expanding its energies and its industries as it is here; that you are not developing a new country; that the speculative feature which enters into our life is necessarily largely absent there, because the speculative period has been long since past—I mean by that that speculation which is based upon new development. Taking all those things into consideration, is it safe to assume that because a plan works in Europe that it will necessarily work here?

Mr. WEXLER. Senator, I am absolutely certain it will work here; and, as far as the speculation in Europe is concerned, while they have not the new development in which to speculate in their own country, they speculate in the development of every country on the face of the

earth. They speculate in our development; they speculate in the development of Africa, Asia, and South America, and everywhere else. As far as expansion is concerned, trade in Germany has expanded in the last 20 years more rapidly than here, and yet the Imperial Bank of Germany meets that requirement there. There may have been a little tightening of the rates; and there is no doubt in the minds of anyone who has given this subject serious study but what the adaptation of the better systems of Europe, with some changes to meet our requirements, will work to perfection in this country.

Senator REED. I want to pass to another matter. Of course, when you tell me that you bankers have figured out a plan, and that from your own judgment you think that that plan will work, that has a very great weight with me; but if you base it upon the experience of Europe, while I think that is valuable, I can not agree with you that it is conclusive, because they do not do things over there in the way that we do. They are not in the habit of going out on the bald prairie and building a city of 50,000 people in 10 years; they do not do much of that, and I think that makes a difference.

Mr. WEXLER. We have only taken their experience as a guide to our judgment in the matter.

Senator REED. You said the second difficulty is that there is no place of rediscount to which a bank which has exhausted its own credit facilities can go. In a word, I take it you mean this: That every obligation the bank owes to its depositors is payable on demand, and it can not realize under the present system upon its assets quick enough to meet that demand. That is the idea?

Mr. WEXLER. When that demand, of course, comes all at one time.

Senator REED. That is the possible demand?

Mr. WEXLER. The possible and extraordinary demand.

Senator REED. Is it not true that if that one difficulty should be removed that we would never have another general panic? I am not speaking about hard times now. I am distinguishing between hard times, close times, tight times, and a panic.

Mr. WEXLER. Well, we would never have a panic, in my opinion, arising from the same condition as the last two panics, we have had.

Senator REED. Could it arise from anything—a genuine panic?

Mr. WEXLER. I can not conceive how a general panic could arise where the banks could not pay out to the people money that they could use to make their general purchases with, but I do not believe that there could ever be a perfect, complete panacea against the folly of mankind. I do not think it is possible to create anything of that kind, and you might, after a period of terrific expansion, wild and extravagant living, perhaps great speculation, where the saving classes, instead of being thrifty and saving, had plunged their money into mines and dozens of things of that kind, similar to the conditions which existed when John Law operated in France in the last century. You might have from such causes a panic, but that has nothing to do with a case of this kind. To say that you could never have a panic, I would not care to make that bald statement.

Senator REED. I was trying to get a starting point.

Mr. WEXLER. Yes.

Senator REED. If your bank had $10,000,000 of deposits and you had been doing a sound, safe banking business, so that your

$10,000,000 was worth approximately $10,000,000, and in addition to that you have the stock of your bank, the double liability of your stockholders, the good will of your bank and all that—nobody could close your doors, if you could take those assets and go across the street and bring back $10,000,000 of money?

Mr. WEXLER. That is correct.

Senator REED. And every other bank situated as you are, if it had a place to go, and meet all demands, would not its doors close?

Mr. WEXLER. That is correct.

Senator REED. And it would not be 10 minutes after they began to get their money out until they would begin to put it back, and, if you could arrive at that condition, would it not mean the end of any real panic?

Mr. WEXLER. Yes, it would.

Senator REED. What are the things and conditions which would bring about this sort of situation: A large bank or two large banks in New York City close their doors. What makes that crash, so that the demands began to be made on banks all over the country, and then banks have to close their doors—what causes that?

Mr. WEXLER. That is caused by the fact being advertised. The two banks were heretofore considered perhaps safe, but have been compelled to close their doors, and the individual here and there begins to feel afraid of the money he has in his own bank, and he begins to talk to his neighbor:

Did you hear about those two banks failing in New York? I wonder if such and such a bank is all right.

And the whisper goes along, and you find these men presently appearing at your window with checks and they take the money home and put it in a stocking or rent a safety deposit box, and they are gradually taking your reserve money out. Then you look at your statements and you find that instead of having a 25 per cent reserve, which is the figure which the law requires to be carried, that you are down to 23 per cent, and maybe the next day down to 22 per cent, and the next 21 per cent, and that begins to be known and reflected in the weekly published bank statement, and then further fear takes place, and further withdrawals, and if everybody comes to get their money and you have no place to go to replenish it, why, of course, you have to close your doors. That is the way a panic works.

Senator REED. Is there any difficulty that the bank suffers under in addition to that? I mean, I am directing your attention to just what I have in mind—to what extent does the fact that banks deposit with each other affect the ability of a bank to meet these extraordinary demands which may be made?

Mr. WEXLER. You understand that we have three classes of banks—the banks in the central reserve cities. They carry all of their reserve in cash in their vaults.

Senator NELSON. They are supposed to.

Senator REED. They do. The law requires them to do it, and their published statement shows it. Oh, except that it may fluctuate a half point up or down.

We have only three reserve cities now.

Mr. WEXLER. New York, Chicago, and St. Louis are central reserve cities, and then we have reserve cities, of which class the city in which I live is one.

Senator REED. You have a large number of those?

Mr. WEXLER. A large number.

Senator REED. Probably 20 or 30?

Mr. WEXLER. Forty-eight now, and we are only required to carry one-half of our reserve in cash, and the other half we may carry with these three reserve cities. In the operation of our business it is necessary for us to carry a certain amount of money in these cities, whether we wanted to or not, even if there was not this reserve requirement.

(At this point the committee took a recess of 10 minutes, after which the following proceedings were had:)

Mr. WEXLER. Might I be permitted to say a word? There are a number of gentlemen who have been designated to study and speak upon the points which Senator Reed and others are asking me about, and I feel that I am monopolizing the opportunity, and I feel very much as if I might be excused. There are others present who can answer these questions as well or better than I can, and who have written and studied a great deal upon the very point you are raising now.

Senator HITCHCOCK. One trouble is that we do not know in advance what the subjects are—if they could be given to us we would know.

Senator POMERENE. Mr. Chairman, I want to suggest that it is possible there may be a difference of opinion among these gentlemen on the different subjects.

Mr. WEXLER. I am glad to say we are a unit.

Senator POMERENE. If there are a half a dozen men engaged in one kind of business who are a unit on everything, I have never come in contact with it, and I think it is very illuminating to get the views of all these men.

Senator SHAFROTH. If the gentleman is willing to return to the stand at any time—I want to ask some more questions, because he is answering some of them very clearly.

Mr. WEXLER. I will be perfectly willing and glad to remain on the stand.

The CHAIRMAN. What is the pleasure of the committee?

Senator HITCHCOCK. I move that Senator Reed conclude his examination, and that any others then desiring to ask Mr. Wexler questions have the opportunity.

(The motion was carried.)

Senator REED. I want to say by way of explanation that I find it very difficult to follow any line of thought out, as long as about the time we get to the point it has to shift to another gentleman. These men are all experts in their line, and I would like to have all their views, just as Senator Pomerene has suggested. Besides, each man states a thing in a different way, and sometimes that tends to elucidate matters.

You had just concluded stating that the central reserve banks actually keep their reserve in cash on hand?

Mr. WEXLER. Yes, sir.

Senator REED. How much reserve do they keep?

Mr. WEXLER. Twenty-five per cent of their demand liabilities.

Senator REED. And they count nothing as a reserve which they have put into any other bank?

Mr. WEXLER. Nothing at all.

Senator REED. So that under the present scheme we start out with the fact that there are three central reserve banks—one in St. Louis, one in Chicago, and one in New York—which have a reserve of 25 per cent of their deposits?

Mr. WEXLER. Yes, sir.

Senator NELSON. It is not one bank in each place?

Mr. WEXLER. All banks.

Senator NELSON. It is the banks in these places?

Mr. WEXLER. All national banks.

Senator REED. All those national banks?

Mr. WEXLER. In those cities.

Senator REED. Can you tell me, without stopping to refer to any documents, about what the reserves of those three cities run on the average?

Mr. WEXLER. I think it is about $400,000,000—$400,000,000 to $450,000,000.

Senator NELSON. Measured by their deposits?

Mr. WEXLER. Measured by their deposits.

Senator REED. I know that. Say $400,000,000. Then that would mean that they had deposits of——

Mr. WEXLER. $1,800,000,000; four times $400,000,000 would be $1,600,000,000. I said $400,000,000 to $450,000,000. The correct amount is $1,800,000,000 of deposits if they have $450,000,000 of reserves.

Senator REED. Of course, if there was a run on banks, as soon as $400,000,000 was drawn out, when they had drawn down to the limit——

Senator SHAFROTH. The reserves, according to the report of the Comptroller of the Currency, June 4, 1913, amounted in those reserve cities to $486,468,614.26. That is the total.

Mr. WEXLER. That is not correct. The figures I have here of the deposit in central cities is $1,800,000,000, which would require $450,000,000 of reserves. I think that is nearer correct

Senator NELSON. Mr. Wexler, do they not get credit for the 5 per cent collection on future bills?

Mr. WEXLER. Yes.

Senator NELSON. That is deducted from it?

Mr. WEXLER. From it.

Senator REED. I did not get your question, Senator—on which they get credit of 5 per cent of the 25 per cent redemption fund deposit deposited for bills.

Mr. WEXLER. That is the only money they are allowed to keep outside of their vaults—the 5 per cent for redeeming notes, deposited in the United States Treasury.

Senator REED. That is for redeeming notes?

Mr. WEXLER. Yes, sir.

Senator REED. So that you really have 20 per cent?

Senator NELSON. No, no; that is 5 per cent on circulation, while the other is 25 per cent on the profits.

Mr. WEXLER. Five per cent for outstanding circulation at the time.

Senator REED. The ordinary bank keeps how much cash in its vault?

Mr. WEXLER. The reserve city banks, or the next class—have deposits aggregating $1,900,000,000. They are required to carry 25 per cent reserve, of which one-half must be in cash and the other half they may keep in any one or in all of the three central reserve cities.

Senator REED. So that they can keep in Chicago and New York and St. Louis 12½ per cent of their deposits and count it as a reserve?

Mr. WEXLER. Yes.

Senator REED. Then there is another class of bankers?

Mr. WEXLER. A class known as country banks. They carry deposits of $3,400,000,000, or nearly twice as much as the two others combined. They are required to carry 15 per cent.

Senator POMERENE. Not twice as much?

Mr. WEXLER. Nearly twice.

Senator POMERENE. As much?

Mr. WEXLER. As much. The other two have $3,700,000,000, and the country banks have $3,400,000,000.

Senator POMERENE. You stated twice as much.

Mr. WEXLER. Oh, no. I beg pardon—I should have said as much as the two others combined.

Senator REED. The 15 per cent that they are required to keep, how much of that is kept in vaults?

Mr. WEXLER. Six per cent of it must be kept in cash; the other 9 per cent of it may be carried either with the banks in the reserve cities or in the central reserve cities.

Senator NELSON. And in each of those cases the 5 per cent on circulation is credit?

Mr. WEXLER. Is credit—a deduction from the total reserve requirement.

Senator NELSON. Both as to the reserve cities and country banks?

Senator REED. That makes a system like this, as I understand it: If a bank in Oklahoma had $1,000,000 of deposits, it would have to have $150,000 of reserve, of which it would have in its own vaults——

Mr. WEXLER (interposing). $60,000.

Senator REED. $60,000; and it would have deposited either in Kansas City—it might deposit it all in Kansas City, but how much would it have to have there?

Mr. WEXLER. It would have to have $90,000.

Senator REED. That becomes a deposit of the Kansas City bank?

Mr. WEXLER. Yes, sir.

Senator REED. Then the Kansas City bank can keep of that $90,000 in its vaults——

Mr. WEXLER. One-half, or $45,000.

Senator REED. $45,000; no.

Mr. WEXLER. One-half of the $90,000—no, no; I beg your pardon. Against the $90,000 it would have to carry a reserve of 25 per cent, which would be $22,500. It would carry one-half, or $11,250, in cash and $11,250 either in Chicago, New York, or St. Louis.

Senator REED. How much does that leave us? You can figure quicker than I can.

Mr. WEXLER. How much where?

Senator REED. Of this $90,000 sent up there by the bank in Oklahoma?

Mr. WEXLER. $67,500, taking out $22,500 of reserve.

Senator REED. I do not want to take it all out. I want to take out what they kept cash.

Mr. WEXLER. Yes. Well, we keep out $77,750.

Senator REED. It sends that down to Mr. Wade's bank.

Mr. WEXLER. It sends $11,250.

Senator REED. It sends all that it has got down to Mr. Wade's bank.

Mr. WEXLER. How do you mean "all," Senator?

Senator REED. We started out with $150,000 in the Oklahoma bank?

Mr. WEXLER. Yes.

Senator REED. The Oklahoma bank had reserved in its own vault of that $150,000, $60,000?

Mr. WEXLER. Yes.

Senator REED. And sends——

Mr. WEXLER. $90,000 to Kansas City.

Senator REED. And sends $90,000 to Kansas City. The Kansas City bank holds as a reserve against that——

Mr. WEXLER. $22,500.

Senator REED. Only half of that.

Mr. WEXLER. All right; $11,250.

Senator REED. And that leaves us?

Mr. WEXLER. That leaves us $77,750.

Senator REED. Yes. That is put with Mr. Wade's bank in St. Louis. Mr. Wade can take that and take his reserve out of that and send it to Chicago if he wants to, can he not, or send it to another bank in St. Louis?

Mr. WEXLER. But it is not doing him any good to do it. His reserve only counts if he has it in his vaults. If he sends it to another bank he can not count it. He must have the reserve of 25 per cent, in addition to whatever he may have in another bank.

Senator REED. When it gets to Mr. Wade the chain is broken?

Mr. WEXLER. It is broken; it stops; you have reached the ultimate.

Senator NELSON. You understand, Senator Reed, that when the $90,000 of the Oklahoma bank comes to the Kansas City bank it swells the deposits of that bank to that extent?

Senator REED. Exactly. I have been accounting for that. When it gets to Mr. Wade's bank he has to keep 25 per cent of it?

Mr. WEXLER. Yes.

Senator REED. And then he can take the 75 per cent that is left and deposit it in Chicago?

Mr. WEXLER. It will not do him any good if he does deposit it in Chicago. There is nothing to prevent him from depositing it where he pleases.

Senator REED. If he wants to loan it to Chicago, he can do that?

Mr. WEXLER. He must keep 25 per cent cash.

Senator REED. The only difference is that the amount of reserve becomes greater when it gets to him. The Chicago bank in turn can take out the reserve and send the balance to New York?

Mr. WEXLER. If it chooses to.

Senator REED. As a loan or in any other way it wants to?

Mr. WEXLER. Senator, there is one mistake in your proposition. You have calculated that the Kansas City bank would send to Mr. Wade all of the money in excess of the 12½ per cent that he is required to keep in cash in his own vaults. As a matter of fact, it would only send down there the 12½ per cent of the $90,000.

Senator REED. Why?

Mr. WEXLER. Because that is the amount of the reserve which it must carry against that deposit of that $90,000 from Oklahoma. The rest of the money it would loan out in Kansas City.

Senator REED. I am talking about what it could do in loaning to other banks. I am not talking about the necessity of deposits, but what I am asking now is to what extent the banks do pass money from one to another in that way. Is it practiced large y?

Mr. WEXLER. I will explain that to you. Let us take our own case. We have a reserve of about 2½ millions cash in our vaults and 2½ million dollars with the reserve agents in Chicago, New York, or St. Louis. We carry that in those three cities, because they are our legal reserve centers and because we get demands from people who have bought goods in St. Louis for exchange on St. Louis, exchange on New York or Chicago. The bills of exchange we buy on foreign countries we sell in New York where the demand exists for such exchange. The money gradually comes to these centers, because they are the natural channels of trade through which the money of the country drifts. In addition to that, we will carry some money in Louisville, Cincinnati, Baltimore, Philadelphia, Kansas City, and various other cities, to which our funds drift in the natural course of business, and upon which we need exchange, and this is in addition to the reserve requirement, because what we have in those last-named cities we can not count as legal reserve. The lending on our part to banks is only to those banks in our immediate vicinity who carry accounts with us. If a bank, for instance, in the city of Vicksburg, Miss., does business with our bank and it needs accommodation in the fall, we loan to that bank.

The CHAIRMAN. The stenographer will please make a note that that $150,000 required on the deposit of $1,000,000 would take $60,000 in their own vaults as a minimum, $11,250 as a minimum in Kansas City, $2,812.50 in St. Louis, making a total of 7½ per cent minimum out of the 15 per cent required by statute.

Senator REED. Could you tell me to what extent the banks do deposit their reserve with other banks?

Mr. WEXLER. Do I think it is advisable?

Senator REED. No; I say, can you tell me to what extent that is done?

Mr. WEXLER. To what extent do the banks deposit their reserves with other banks?

Senator REED. Yes.

Mr. WEXLER. In the exact amount that the law requires, together with such additional reserve as particular banks may think it necessary for them to carry for safety.

Senator REED. I do not know whether you quite caught me or whether I quite catch you. A country bank is required to carry a certain per cent in its vaults, and it may carry the rest of its reserve in another bank?

Mr. WEXLER. Yes.

Senator REED. I am not asking whether it complies with the law and keeps the 6 per cent in its own vaults. To what extent does it deposit that part of the reserve in other banks which it is permitted to so deposit?

Mr. WEXLER. All of it. It may keep it in cash. The general rule is to carry the nine-fifteenths required to be carried by country banks in addition to the six-fifteenths in cash in other banks in reserve cities.

Senator NELSON. But the country bank may keep the whole in its own vaults?

Mr. WEXLER. It may.

Senator REED. But I understand, as a matter of fact, it generally does not.

Mr. WEXLER. Generally it does not.

Senator REED. And generally all banks avail themselves of the privilege of depositing that part of their surplus with other banks which the law allows them to so deposit.

Senator HITCHCOCK. Senator Reed, it is time to put in the record the fact that the statement shows that the bank deposits of the national banks consist of $6,000,000,000 individual deposits and $2,000,000,000 bank deposits; about one-fourth of all their deposits are bank deposits.

Senator REED. That, of course, includes, Senator Hitchcock, not only the reserves which they transfer from one to the other, but such other deposits as they see fit.

Senator HITCHCOCK. National banks, their total individual deposits are $6,000,000,000 (about) and their total bank deposits from other banks are $2,000,000,000.

Senator REED. In other words, the reserve and also other deposits. [To the witness.] I am now about to ask you this question—if Senator Hitchcock will let me have his figures I will be obliged: What degree of peril is added in the case of a panic, if any peril is added, by virtue of the fact that these reserves are in part deposited with other banks and other moneys, so that about one-fourth of the moneys in the banks are deposited with other banks?

Mr. WEXLER. The question is to what extent that adds to a panicky condition in time of stress?

Senator REED. In case there is a panic started, to what extent does it accentuate the other?

Mr. WEXLER. Well, when the entire system breaks down and banks throughout the country at large can not pay currency, as happened in 1907 when we had to resort to an illegal practice of issuing clearing house certificates, why, the fact that you have not that money in your own vault and have it in various banks throughout the country, naturally militates against your ability to pay out cash just to the extent of that portion which is not in your vaults, and which is in other banks.

Senator REED. In other words, if there was $1,000,000 started in Oklahoma and part of it went to Kansas City and to St. Louis, and part of it went to Chicago and finally part of it went to New York, if you tied that money up in New York, you would tie up that chain of banks to the extent of the money so held?

Mr. WEXLER. The percentage that finally finds its way, however, to central reserve cities, as you have observed in here, is a quite small part of the total.

Senator REED. But, I say to the extent——

Mr. WEXLER. To whatever extent that may be. If you needed the actual currency and you had it in New York and could not get it, your ability to pay it out would be impaired just to that extent.

Senator REED. In reference to the panic of 1907—just a word on this point, not to go into it generally—was not the fact that the banks were largely tied together by their business relations and their interdeposits—I presume I may use that term—responsible for the forcing of the suspension of payment by the banks generally throughout the other portions of the country? Was not that largely responsible?

Mr. WEXLER. Well, it is a good deal like a doctor diagnosing a case of sickness, Senator. When an attack comes on it is very hard to diagnose the original cause of the disease and its inception. There is a great deal of diversity of opinion about it. Of course, the first radical reduction in reserves exhibited itself in the New York bank statement, and that attracted the attention of the whole country to the condition in New York. The moment we all saw that condition, we had to draw our money out of New York in order to intrench ourselves, and in doing so we further weakened New York, so that we contributed in a sense to the acute condition that existed in New York. Our country bank correspondents, when they found that we were drawing our money out of New York with a view of strengthening ourselves, turned around and drew it out of us to strengthen themselves. So that the whole system broke down because of its inefficiency.

Senator REED. And finally ended with the fellow with the stocking.

Mr. WEXLER. With what?

Senator REED. Ended with the gentleman with the stocking—the man that was going to get the money out and put it in his stocking.

Mr. WEXLER. It finally went to the individual who took it out of the bank and put it in his stocking. That was what created the panic. So that we all finally contributed to the acute condition that existed.

Senator REED. So that it must be true that this practice of banks carrying large deposits with other banks is an element of danger in the present system?

Mr. WEXLER. In the present system; yes.

Senator REED. That is what I am trying to get at—the difficulties of the present system. Still keeping away from this bill.

Mr. WEXLER. For the reason that, Senator Reed, the New York bank has no place to go and get this money when called upon for it, having no privilege of rediscount.

Senator REED. Suppose that the New York bank had a place it could go and get this money. That would pretty nearly solve the difficulty, would it not?

Mr. WEXLER. Absolutely.

Senator REED. But you do not think if he could go and get it down here out of the Treasury that that would do much good?

Mr. WEXLER. No, sir; it would not. It is too cumbersome.

Senator REED. Why not?

Mr. WEXLER. In the first place——

Senator REED. I'm talking about—following the present method—a condition of affairs where he could walk right down to the Federal Treasury, promptly, and get the help. Would it not then be able to meet this condition?

Mr. WEXLER. Yes; if the central Federal Treasury had the money and the Federal Treasury had the machinery for passing upon these loans, and was willing to make the loans at that time promptly—immediately upon the minute—why, of course, it would answer the purpose.

Senator REED. Very well. I understand, of course, that you are talking about any plan that can be worked out. I am trying to get at the principle now. The whole difficulty, then, simply lies, as far as panics are concerned, in the inability of the great banks of the great centers to get money for their assets and get it quick?

Mr. WEXLER. Yes.

Senator REED. I thank you for that.

You have already, I think, answered the third proposition, in which you said that the third difficulty was that the entire reserves were scattered in the various banks, and you thought that they ought to be gathered into one common reservoir; and I do not care to press that further at this time. I am taking too much time, anyway.

Just one other matter, in regard to rates of interest: I believe you have stated that money goes to New York and to Chicago and to St. Louis and other large cities because it is following the demands of trade and commerce. Do you think, therefore, that the real laws of trade must be considered in that respect?

Mr. WEXLER. Undoubtedly.

Senator REED. I want to get your views as to whether or not a similar law does not apply to the question of interest charges—that is to say, we find that you can get a greater rate of interest on money in a new State. I have always found that it was not so much on account of the risk as on account of the fact that the man who borrowed the money had a better chance to make money probably than he did in older places. Is not that the situation?

Mr. WEXLER. I do not think it is, Senator. I think the higher rate paid in the newer State is due to the less liquid character of the security. It may be just as good. A man may have a vast tract of timber; that is an excellent asset, yet it may not find a ready market. You will find that the higher rate is paid on account of two things: One the risk, and the other the liquid condition of the collateral—how readily the money can be collected and converted back into cash. In new States—and largely in the Southern and Western States—our collateral is not as liquid as the collateral in the New England and Eastern States.

Senator REED. I know. You have been so manifestly fair all through this interrogation, and I want to ask you a little further. A man out in a Western State perceives an opportunity to invest in something and make 100 per cent. Is not he more willing to pay a higher rate of interest, and do you not think that cuts some figure in the matter?

Mr. WEXLER. I think it does. He is more willing to pay a higher rate and he ought to pay a higher rate. What would just be the class of thing that you have in your mind upon which he sees an opportunity of making 100 per cent? Might it be the boring of an oil well,

might it be the buying of a piece of timber, or the erection of a sawmill or stave factory or an ice plant, or many things that new countries require, which is more or less fixed capital, not credit? He puts the money in with the idea of making a big profit out of it or selling it to somebody else. He could not make 100 per cent by the operation of any one of those plants. Therefore it is more or less fixed capital that has to go in for a long time, and his judgment may be correct, and he should pay a higher rate, and that class of securities should never go into the central bank as a basis of a note circulation.

Senator REED. Do you think the same conditions that make it possible for this man to invest in the class of business ventures you have spoken of has its effect all along the line—the wages of men are higher, the profits on goods sold are higher, and do you not think that has something to do now with the building of the bank, and consequently the ability of the bank to ask more?

Mr. WEXLER. Senator, I do. You are entirely correct that that employs labor and pays out wages and makes business better, but whenever the investment in enterprises of the character to which you refer is widespread and general and upon credit—that is, that the man who makes the investment has not his own money in the bank that he can use—that is what we class dangerous expansion, when he goes to borrow for such purposes, and that is what really brings about a panic, when we go too fast in investments of that kind.

Senator REED. That is illuminating, but a little aside from the thought I have. I am directing your attention to this, whether it would not violate these—I will call them "natural" conditions for the want of a better term—if we had one fixed rate of interest, the same for New York that you would have for Portland, Oreg., the same for Boston that you had for Seattle or San Francisco, are you not there trying to fix an iron rule and fastening upon conditions that are widely variable and where the unobstructed laws of trade have already met the varying conditions by varying rates of interest?

Mr. WEXLER. No, for this reason, that the central bank or a Federal reserve board controlling the regional banks would have no control over the rate of interest which the individual National and State bank would charge. It has nothing to do with it. It simply makes the rate at which it gives rediscount for the various banks. If John Smith should contemplate an enterprise of the nature that you refer to and wanted to borrow the money, he could not go to the regional bank, because he could not trade with it. He would go to the bank located in his town, and that bank would charge him a rate commensurate with the liquid character of his collateral and upon the risk. That rate he would have to pay, and that would have no regard to any rate fixed by the Federal reserve board. After the bank got that collateral it would have to know that it had the money to take care of it for the full length of time that it had loaned, because it is not of the character that he could go and rediscount that paper, even with its own indorsement, in the Federal reserve bank.

Senator REED. Why not?

Mr. WEXLER. Because it would not be permitted.

Senator REED. Suppose it is a merchant. I will take that.

Mr. WEXLER. All right, take that.

Senator REED. We will say that the natural rate of interest in the East is 5 per cent. The present rate in the West, let us say, is 7 per cent. You establish this system, and your central bank says to its branches, or the Federal reserve board up here says to the Federal reserve banks, "We loan you money at, say, 3 per cent." Your bank out West would get its money at 5 per cent, and still continue, you think, to charge the same rate of interest to its customers?

Mr. WEXLER. No, I think the rate of interest on this class of paper would decline. I believe the public would be served to better advantage and at lower rates on liquid commercial paper than it is being served at the present time; it would be an advantage to the whole country.

Senator REED. If the rates came down on liquid commercial paper, that would necessarily, at least indirectly, affect the rates on all paper, would it not?

Mr. WEXLER. I do not think it would.

Senator REED. You do not think it would at all?

Mr. WEXLER. No, sir. I have seen a condition where you could rediscount good commercial paper at 4 per cent in New York in banks and through commercial note brokers, when a railroad would have to pay 7, 8, or 9 per cent in order to get money—a good railroad corporation.

Senator REED. You say the bank would be able, although it got money at, say, 3 per cent, to nevertheless charge the customer in these western places 6 or 7 or 8 or 9 per cent, as the case might be; in other words, charging whatever they saw fit, limited, of course, by his disposition to pay?

Mr. WEXLER. Yes, sir.

Senator REED. If there was only one bank in his community he would have to pay what they fixed, would he not?

Mr. WEXLER. That is what he has to do now; but he could get in his buggy or automobile and go to the next town 10 miles away and get a little competition on his loan.

Senator REED. He could do that now.

Mr. WEXLER. Yes.

Senator REED. But if you had one central bank and it had its branches in every city and town, I believe you said every national bank would join it and practically every other bank would join it, and if this man left his town and went across the country 10 miles to the other town he would be dealing with the same gentlemen, in fact, that he was dealing with in his own town?

Mr. WEXLER. Senator, he would not. You are confounding in your mind the Federal reserve bank or the branch of a central bank with the 23,000 to 25,000 State and national banks throughout the country who are merely subscribers. The competition amongst us as general bankers is extremely keen, and what makes the rates to-day? It is the competition that exists between bankers. If a man comes to me and wants to borrow, I do not ring up and ask every other banker, "Has he been to you?"

Senator REED. I understand that. As it appears to-day you bid for the borrower.

Mr. WEXLER. We give him the prevailing rate of interest upon loans of that character.

Senator REED. If he is not satisfied with you he comes to me?

Mr. WEXLER. Exactly.

Senator REED. The result is there is competition.

Mr. WEXLER. There is competition.

Senator REED. If you have one central bank and that central bank has its branches, and all banks in order to avail themselves of its help must be members of it, then I want to know why there would not be one rate of interest fixed clear down to the customer.

Mr. WEXLER. Because——

Senator REED. Inevitably.

Mr. WEXLER. Not at all. There would be absolutely no more relation between the individual banking institution then than there is to-day. They would simply be subscribers of one central reservoir of credit with which they could discount liquid commercial paper, but the remainder of the resources which they could not rediscount and their discounting privilege would be governed to some extent by the lending ability. Under the reserve bank system or the central bank with branches there would be the same competition that there is to-day.

Senator REED. I understand you to say——

Senator NELSON. Let me interrupt you. I think that you have overlooked the fact that it is only banks that can be customers either to discount or to deposit with these national reserve banks, and they can not deal with individuals.

Senator REED. I am not talking about the national reserve bank now at all. I am talking about this suggested plan with one central bank with numerous branches. Suppose that is established, and it has its numerous branches. I asked the question of Mr. Forgan, I think—I may be in error, if I am I apologize—whether or not that would not compel all banks ultimately to become members of the general system, and I understood him to say it would.

Mr. WEXLER. I think it would have the effect—the privileges should be so great that they would all want to join the general system.

Senator REED. Suppose that is established, and it has its numerous branches; I asked the question, I think, of Mr. Forgan—I may be in error, if I am I apologize—whether or not that would compel all banks ultimately to become members of the general system. I understood him to say that it would.

Mr. WEXLER. I think it would have to be so. The advantages would be so great that we would all want to join the general system.

Senator REED. Under that scheme which is suggested, what would be your relations to the great central bank with its numerous branches?

Mr. WEXLER. What would be our relations with the central bank located in Washington in connection with the banks in New Orleans? I would be a subscriber to the stock of the central bank and a depositor in the branch in New Orleans. My general customers doing business with me to-day would continue to do business just as heretofore and would not know of the existence of this branch.

Senator REED. The New Orleans bank would rediscount at a rate of interest upon which to loan money to you and everybody else?

Mr. WEXLER. To me and every other bank.

Senator REED. That is what I mean. We will say they fix that rate of interest at 4 per cent.

Senator CRAWFORD. Senator Reed, pardon me, but would it include every other bank?

Senator REED. If they all subscribed, and I think they all would have to.

Mr. WEXLER. All right, now, we have that condition.

Senator REED. Your advantage in belonging to that system is that you can go and rediscount your customers' paper?

Mr. WEXLER. That is it.

Senator REED. The first thing necessary, therefore, is that your paper shall be of such character that it will be passed by the central reserve bank?

Mr. WEXLER. Yes.

Senator REED. Therefore is it not only possible, but is it not inevitable that the central bank would prescribe the kind of banking you should do in order that you should be a safe bank?

Mr. WEXLER. No; no more so than the comptroller's department at the present time prescribes the class of banking I can do.

Senator REED. But the comptroller's department at the present time does not have to let you have money.

Mr. WEXLER. No; but it prescribes the kind of business I can do.

Senator REED. Let us see how it will work out. We might discover that it would be a bad thing for banking, and we might discover that it would be a bad thing for the country. I know the bankers do not want to hurt the country.

Mr. WEXLER. No, sir; we do not.

Senator REED. Would not the central bank necessarily say in the end to you:

> We think you are paying too much interest on deposits; when we loan your bank money we do not want this kind of collateral; we want a good bank back of the collateral.

Would they not in that way, by suggestion, if not by command, influence the rate of interest paid upon deposits?

Mr. WEXLER. I do not think so, sir. I think that the Federal reserve bank located in New Orleans would simply act in its relations with me in this capacity: We would be a subscriber to it, and the general borrowing public would have no relations whatever with the Federal reserve bank. It would have its relations with me.

A wholesale dry-goods man, for instance, would come to me. He is in good credit, and he can sell his paper on the markets of the country, and he carries a large average balance, and he only borrows money for three or four months of the year, and he carries this balance all the rest of the year. I fix him as low a rate as my judgment might justify. It may be as low a rate as 4 per cent, as I can rediscount his paper with the Federal reserve bank in that district, or I may charge him 4½ or 5 per cent, as the case may warrant.

Now comes along a sugar planter who is perfectly good; he owns a magnificent plantation, he carries an account with us. He has his crop to bring in, and he wants $25,000 to finish his crop with. We will say that is a three or four months' loan. His balance may not be as large, his paper is not quite as liquid, and he will pay me probably 1½ or 2 per cent more. That is, I would exercise my business judgment of the value of the two accounts to the bank. I come along to the middle of September and I find that people want to borrow money on cotton, sugar, rice, and various other commodities. I find

that we need more money in order to carry all these commodities, and I take the note of the dry-goods merchant or of the sugar planter, to the extent that I may need money, and take it over to the central bank and offer it at the prevailing rate on that day and they discount it. They do not discriminate with regard to the rate. The paper must be of that quality and standard required by the by-laws and rules of that bank or they will not take it at all. If it is of that character they discount it. They give me their rate on that date and the commercial transactions of the country are facilitated, and the commercial interests of the country are benefited. The rates of interest on that class of paper may decline, but it will have absolutely no relation to the money borrowed. The money borrowed for the general development of the country will have to pay the rate which the risk of the loan and the character of the assets justify.

Senator REED. That is a limitation?

Mr. WEXLER. Yes, sir.

Senator REED. After the establishment of this central bank and its numerous branches, how would it proceed to protect itself for loans or rediscounts that it made to your bank, for instance?

Mr. WEXLER. Protect itself? Well, for instance, the board of that bank would be six members, as the bill proposes, selected from that immediate section, three probably bankers, and three merchants or agriculturists, who would be presumed to be familiar——

Senator REED. I am not speaking of the plan proposed in this bill. I am speaking about the central bank.

Mr. WEXLER. The branch central bank would have a governor at this central bank, and an advisory board there who would pass upon this paper. Its duty would be to be just as familiar with conditions as the board and officers of our bank are to-day. If they did not think well of the paper they would refuse it.

Senator REED. That all relates to an examination in regard to the paper itself?

Mr. WEXLER. Yes.

Senator REED. But in addition to the paper it would have to take into consideration the character of your bank and stability of your bank also. Do you think that would cut any figure?

Mr. WEXLER. Decidedly so.

Senator REED. Then they would take that into consideration?

Mr. WEXLER. Yes, sir; we would be the indorsers of the paper.

Senator REED. Therefore, if you went there to get credit, they would consider, not only the credit of the man who signs the note which you presented, but also your credit?

Mr. WEXLER. Yes, sir.

Senator REED. Then do you think that if they made a suggestion to you that you were paying too much interest on deposits that you would not take heed to that suggestion?

Mr. WEXLER. I think that if they made such a suggestion and the suggestion was wise I would certainly take heed of it.

Senator REED. Don't you think you would take heed of it a little on the line that this was the place you had to go to get your money in the time of rediscounts of these notes?

Mr. WEXLER. I can not conceive, Senator, of a suggestion being made that would not be in the direction of sound and conservative banking.

Senator REED. Suppose they said:

You must not pay interest on deposits at all.

That would be in the interest of making the bank safe and it would be sound banking in that sense. Suppose that he said to you:

You must not extend any more credit to A B; we don't like his paper.

It might be sound banking, but I am thinking a little about A B now just for a minute, about the customer, and the possible effect of one central body fixing this sound rate and one central body supervising in the way I have indicated all of the banking business of the country. I am thinking of the possible effect that might have upon the borrower.

Mr. WEXLER. I do not think, Senator, it could have anything but a salutary effect. Let us presume that the condition you have just mentioned arose, in which they should say:

We do not believe it to be good policy for banks to pay interest on deposits subject to check.

Let us presume that. I am not so certain but that such a recommendation might be very good. Who pays the interest in the end? Nobody but the borrower. If I am paying 3 per cent interest to all my depositors, I must get that much higher rate from the borrower. He has to pay the freight in every circumstance.

Senator REED. That is true, but the man who has the money in your bank gets part of the freight.

Mr. WEXLER. If he has a lot of idle money, he has means of investing it. He can put it into savings banks where he can get interest, but I can not conceive of any branch of a Federal reserve bank or of a central bank inflicting upon the general banking interests of the country arbitrary rules that would be injurious to the people doing business with those banks. I am sure such a condition would not exist.

Take Canada, where they have the branch-bank system. These branch banks do the local business. They have never inflicted upon their customers any arbitrary rules and regulations. I do not believe that we have anything at all to fear from that source. I think it will make for sounder and better banking.

Senator REED. I do not want to have my questions misinterpreted.

Mr. WEXLER. I understand; you are trying to develop the fact.

Senator REED. The bankers are high-class business men; I think a good deal of them; indeed, I borrow money from them.

Mr. WEXLER. They are very necessary.

Senator REED. And as long as they continue to loan money I am going to have a soft spot in my heart for them; but the question now is whether or not it is not entirely possible for this central control to finally manifest itself in the conduct of the business of the individual banks in such manner that the business will be perhaps safer and sounder and for the best interest of the customers of the banks in the end? Will he not find that there is practically only one place to get his accommodations and that competition has been largely wiped out?

Mr. WEXLER. That is not the result in Europe. I am confident that this plan will make for sounder banking; that it will make for certainty of the banker being able to accommodate his customers. The great thing to be accomplished is to enable the man who needs

credit to conduct his business with confidence and with certainty that the credit he requires will be furnished him and that he need not be constantly under fear and hesitation as to whether or not he can get that credit. I believe that would be accomplished by the central banks or Federal reserve banks.

Senator REED. That is all I wish to ask you at the present time; I thank you, Mr. Wexler.

Senator HITCHCOCK. Mr. Wexler, you were just referring to this European practice, and if I understood you correctly, you spoke of the European system as being preferable. Which system do you refer to?

Mr. WEXLER. The Bank of France appears to me to have an organization that is more nearly fulfilling all of its requirements as far as that country is concerned than the other systems that I know of. However, I have not made a study of the European systems lately and I am hardly in a position to make any definite statements in regard to them.

Senator HITCHCOCK. You objected when I said that the capital of these proposed new reserve banks might be owned outside of the banks, and yet the Bank of France is owned entirely outside of the banks, and they have no control over them.

Mr. WEXLER. I admit that. I think that is true of all the European banks. In fact, the capital is owned outside of the banks, but if you allow the capital here to be owned outside of the banks you will have to open the doors of the banks to the general public, and you will create a competition between your Federal reserve banks and the general banks which will ultimately result in this country in a monopoly of the banking business, in my opinion, and the dangers to which Senator Reed has just referred might very well occur.

Senator HITCHCOCK. Is it not a fact that the bank borrowing of every European country is much more concentrated than the bank borrowing of the United States?

Mr. WEXLER. Yes, much more.

Senator HITCHCOCK. And if we adopt one of those systems we are going to concentrate and centralize that bank borrowing?

Mr. WEXLER. Not under the plan we propose here where each bank maintains its independent entity all the way through. I can not see how we can possibly have the condition of centralizing our banking systems. We will simply centralize our reserves and rediscount facilities, and we will have just as many separate entities as we have to-day, and they will increase as the demand for additional banks occurs.

Senator HITCHCOCK. The bank that desires to borrow currency under your plan, however, must ultimately seek relief of the central association?

Mr. WEXLER. Undoubtedly.

Senator HITCHCOCK. And seeking that relief, it is bound to present paper which is satisfactory to the central association?

Mr. WEXLER. Yes.

Senator HITCHCOCK. And if the central association has the power of refusal it would result in giving the central body the power of suggestion to all banks and the power to considerably control their methods?

Mr. WEXLER. Well, it would to the extent where such methods are unsafe. The same condition exists to-day. When I go to our correspondent in New York for a loan and he does not think conditions are as they ought to be, he does not hesitate to say:

I do not think you are loaning your money at a proper rate of interest, or you are paying too much interest on your deposits.

That is a perfectly proper suggestion. I make it to the banks which come to me. I have no hesitancy in saying to them:

You are not on the right track; you must mend your ways.

Why should not the central reserve banks have that privilege?

Senator HITCHCOCK. But you take away from New York, St. Louis, and Chicago, and all these 48 other cities, this power of suggestion and give it into the hands of one bank.

Mr. WEXLER. Not at all. Take, for instance, our case. The banks doing business with us will probably have to use our facilities to a certain extent just as they have heretofore. They will not have enough liquid commercial paper of the proper character which this bank would accept. They will have to come to me with paper of a character which this bank will not take and I will have the same power of suggestion that I have had heretofore.

Senator HITCHCOCK. This power of suggestion is now divided up in these three central reserve systems and as many banks in each system, and you propose to concentrate it all in one system?

Mr. WEXLER. No. They, as lenders of money, will have the power to suggest, which is an ordinary human right. The banker in the small town suggests to the individual. If one of his customers who borrows money from him is not running his business properly he tells him so. That is just in the ordinary human course of affairs that the man who is doing business with another man and feels an interest in that man's welfare suggests to him the proper course of business which he should pursue. Of course he may reject that suggestion. I have had men reject my suggestions to them, and the only thing they can say is—

If you do not like the way I am running my business I will take it to another bank.

Senator HITCHCOCK. You referred to the Bank of France. As a matter of fact your association of bankers proposes an entirely different currency plan from that in use in the Bank of France.

Mr. WEXLER. I have said that we can not adopt any particular European or other system. We have to work out a system, taking the experience of foreign countries which is adaptable to our own particular conditions of affairs.

Senator HITCHCOCK. You are proposing a currency which is not a legal tender. The currency of the Bank of France is a legal tender.

Mr. WEXLER. Well, our currency would be legal tender——

Senator HITCHCOCK. I am speaking in the absolute sense. The currency that you propose is not a legal tender.

Mr. WEXLER. Well, I will simply reiterate that we have suggested a great many changes from any foreign system I know of, all of which we believe desirable.

Senator HITCHCOCK. Is not the real trouble at the present time a lack of adequate legal tender—money—in the United States?

Mr. WEXLER. I do not think so.

Senator HITCHCOCK. The figures show only $900,000,000 deposits of balances in the reserves of banks of the United States for $8,000,000,000 of deposits. In other words, only about 10 per cent.

Mr. WEXLER. Yes; which is really more than we need. In this country the average reserve for the banks of deposit is 13 per cent, and in Europe the average is but 12 per cent.

Senator HITCHCOCK. In Europe there is no duplication. Here we have duplications.

Mr. WEXLER. This to which I refer is all cash reserve, metallic reserves—legal money.

Senator HITCHCOCK. The reserves shown in the national banks of this country are something like $900,000,000—that is, the cash reserve—against $8,000,000,000 of deposits.

Mr. WEXLER. But it is metallic cash, gold reserve.

Senator HITCHCOCK. And the real trouble when it occurs is that the bankers are compelled to dip into this reserve if there is a run, and the banker has to make an excessive payment for loans. You propose no addition to this volume of reserve at all; what you propose to do is to increase the supply of credit money.

Mr. WEXLER. I am certain that the reason we have to dip into that metallic reserve is because we have not any paper money we can give the people. The people do not need the gold. If you had money in the bank you would not need to draw gold; you would have no use for it. You would only do that if you were frightened. A bank note would answer your purpose just the same.

Senator HITCHCOCK. Has not every bank panic occurred where the reserves of the bank were at a very low ebb? Was not that the case in 1907?

Mr. WEXLER. Yes.

Senator HITCHCOCK. And is it not true that at the present time bank reserves—I mean the cash reserve money in the banks of the United States—is almost at the same low ebb as in 1907?

Mr. WEXLER. No; I think the average reserve now is fully up to legal requirements.

Senator HITCHCOCK. I am not speaking of the book reserves; I have no doubt that the books of the bank will show 25 per cent of their balance on hand, but, on account of this duplication of deposits, there is not actually in the banks of the United States more than $900,000,000 for the $8,000,000,000, and that is almost as low as it was in 1907. It is a little more than it was in 1907, but not much, and it is down to the point where bankers are actually restricting their credits at this time because they are so low. Is not that a fact?

Mr. WEXLER. Yes.

Senator HITCHCOCK. And your proposition does not go to that evil, but is only to inflate the credits.

Mr. WEXLER. Not at all. My proposition will bring into the banks the $300,000,000 or $400,000,000 of gold circulating in the pockets of the people to-day and add to the present reserve and give them in lieu of it a circulating note which will answer their purpose just as well and which they would rather have. We are paying out this reserve money whenever there is a demand for a circulating medium, when that money ought to be in our vaults.

Senator HITCHCOCK. You propose using these bank notes which you want to issue for the purpose of withdrawing the gold from the people and getting that gold into the banks?

Mr. WEXLER. Exactly. I think that with this system in vogue you would not see any more gold certificates and very few greenbacks. They would be the basis upon which the credit would rest.

Senator HITCHCOCK. That gold when drawn into your banks would be the basis for conditional credit on which you would issue loans. Does not that mean inflation?

Mr. WEXLER. Not at all; not if you have the proper proportions of reserve. Probably, if you look in your pockets you will find $40 or $50 of gold certificates there.

Senator O'GORMAN. No Senator from the West has that much money.

Senator HITCHCOCK. I do not want to expose my financial condition.

Your idea, then, is that this power to issue conditional bank notes is desirable for the purpose of trading them to the people for the gold which you state is in circulation, thereby drawing the gold into the bank and increasing your reserve money, and for that reason increasing the loans you can make? You think there is no danger of inflation as a result of that process?

Mr. WEXLER. No, sir; because the amount of money you can issue in exchange for this gold must always be protected by gold reserves and liquid paper constantly maturing and constantly coming in for redemption.

Senator HITCHCOCK. Now, Mr. Wexler, you approve of the European system. Will it not require practically a revolution of American banking to adopt rediscounting of bills by banks?

Mr. WEXLER. The rediscounting of bills by the central banks or the Federal reserve banks?

Senator HITCHCOCK. Would not that require a revolution in their methods of doing business?

Mr. WEXLER. Not in the least.

Senator HITCHCOCK. They carefully avoid rediscounting bills now, do they not?

Mr. WEXLER. Yes.

Senator HITCHCOCK. It is regarded as bad banking?

Mr. WEXLER. In some sections it is; in other sections it is regarded as good banking.

Senator HITCHCOCK. But it would practically be a revolution of banking methods, would it not?

Mr. WEXLER. When the banker in the city gets hard up he does not want to borrow because he does not like to have it appear in his statements; it is simply a sentimental idea which prevails in his mind. As a matter of fact he would be a great deal better off if he did borrow and take care of the business of his section and of his customers. In the section in which I live we do borrow. In 1907 the bank of which I am vice president borrowed twice as much as its capital to take care of the business. Many banks did not do it. We believe that the business should be carried on, that the crops should be shipped to Europe, and the gold brought back, and we did not hesitate to borrow and use the money in our business. It will cause no change whatsoever; instead of borrowing from New York as we do, we will have the central reserve bank of credit to go to.

Senator HITCHCOCK. Mr. Wexler, you admired the banking system of France. Is it not a fact that the Bank of France discounts notes

for not more than 50 banks; that is, the total number of banks for which the Bank of France discounts notes?

Mr. WEXLER. I can not answer that question. It also discounts for the public.

Senator HITCHCOCK. My judgment is that it is much less because there are only a few banks in France with several hundred banks connected with each. Do you think that method can be made to apply to a country with 25,000 banks, if all want to discount notes?

Mr. WEXLER. Not at all. I think the central bank here should have the right to discount for the 25,000 banks.

Senator HITCHCOCK. Would you think the rediscounting of the banks is entirely different and a more serious proposition with so many individual banks than if there were a smaller number of great banks with which the business could be done?

Mr. WEXLER. I do not think so; not at all. It is a question of principle. I venture to say that there are banks which discount for 3,000 or 4,000 now. There is no difficulty about it.

Senator HITCHCOCK. A few moments ago, in answer to a question put by Senator Reed, you said that you thought that it would be entirely feasible for you to go to the representative of a central bank in New Orleans and present your paper and secure whatever cash currency you desired on that rediscount. Can you see any good reason why you would go to that bank if, instead of representing the central bank, he represented the Treasury of the United States—the same expert represented the Treasury of the United States—to pass upon the paper which you offered and hand you out in place of it bank notes—notes of the Treasury of the United States?

Mr. WEXLER. I can not see any reason for that. The Government has no money with which to do it.

Senator HITCHCOCK. Suppose the Government provided the money?

Mr. WEXLER. How would it provide it?

Senator HITCHCOCK. By issuing these notes and providing gold reserves for their payment.

Mr. WEXLER. Where are they going to get the gold?

Senator HITCHCOCK. By selling more bonds; by providing an issue and requiring the bankers to pay enough interest for the loan of the currency to more than pay the interest on the bonds.

Mr. WEXLER. We have a fixed bond-secured circulation——

Senator HITCHCOCK. No; you misunderstand me. The bonds not to be secured; the bonds merely to be issued for the purpose of providing a gold reserve in the Treasury. You are to borrow those notes and pay interest on them during the time you have them. The Government is liable for their payment and has reserved their payment, but in the money you pay the Government for the loan of the currency you more than pay the interest on the bonds. By that method we add to the country a considerable amount of reserve money—legal-tender money, money that would be good for all purposes, public and private, and currency that could be used for banking reserve.

Mr. WEXLER. Do you want to make those notes legal tender? If so, you would have to do it by act of Congress.

Senator HITCHCOCK. All Government notes are legal tender now.

Senator REED. We are dealing with an act of Congress.

Mr. WEXLER. I am sure, if you wanted to do so, you could work out a scheme by the which the United States Government could go

into the banking business; but I do not believe that the Government of the United States ought to be in the banking business.

Senator HITCHCOCK. The Government of the United States would simply be authorizing currency for the purpose of enabling banking interests to do business.

Senator NELSON. Would not the banks have to deposit commercial paper with the United States?

Senator HITCHCOCK. Certainly; they would deposit it with the agents here.

Senator NELSON. And the United States would be holding a lot of commercial paper?

Senator HITCHCOCK. Certainly.

Mr. WEXLER. You practically have that in this plan. We have the Secretary of the Treasury as the ex officio head of this bank; we have everything you gain by having a Government bank without having the Government mixed up in it.

Senator HITCHCOCK. The plan I am proposing does not involve the complicated machinery; it does not involve the deposits of the country; it does not involve detracting and taking away from the inadequate capital of the national banks; it does not take away the independence of the country banks or the individuality of the bankers.

Mr. WEXLER. But here is what it does, which is infinitely worse. It is in the first place pledging the credit of the Government to secure the bonds. What advantage is there in selling a bond at 4 per cent which the Government would have to do now, and then requiring the people of the country to in turn pay that interest back to the Government, when you have the reserves now scattered all over in the 3,000 or 4,000 different piles, which simply needs to be concentrated into one pile to create the gold reserve necessary?

Senator HITCHCOCK. I am asking for enlightenment on a different line. You propose to inject perhaps $1,000,000,000 of credit currency into the money of the country. Is there any danger that the injection of that debased currency would tend to drive gold abroad?

Mr. WEXLER. Just the contrary.

Senator HITCHCOCK. That, it seems to me, would be the invariable result. You have a note which is not legal tender; you propose a note which is not legal tender.

Mr. WEXLER. But gold will not be near as available to be shipped out of the country as it is at the present time, because the gold will find its way into the vaults—into this central reservoir of credit—and the circulating note will be out among the people. Of course, these notes could be presented by a foreign Government if it had a balance against us at the central bank and the equivalent in gold taken away, and you will recall that I raised the point that the central reserve board ought to have enough power to levy an export tax upon gold. That has been discussed in our committee. We have to-day the only free gold market in the world, and the balance of trade in our favor, and our enormous crops have been so great that we have been able to get our gold back on several occasions when it has been diverted abroad. But a condition might arise which would make an export tax on gold desirable.

Mr. FORGAN. I would like to suggest to the committee, if I may, that we are not at all surprised that the members of your committee when they get hold of a witness like Mr. Wexler should hold onto him.

but Mr. Hill has been asked to prepare himself specially on behalf of this committee to answer all your questions in connection with the subject you have just been discussing. He is specially posted on the topics about which you have asked Mr. Wexler during the past 10 or 15 minutes; Mr. Wexler has only the general knowledge of the matter that he has acquired in his business. He is not as ready to answer as the gentleman who has prepared himself.

Senator HITCHCOCK. Well, we will give Mr. Hill all the questions that are necessary to shed light upon the subject.

Mr. FORGAN. All I desired to do was to make the suggestion on behalf of ourselves that you ask the men who have prepared themselves to answer on these special topics, because we do not wish to give our own individual opinions. I want you to understand that we are here, appointed by the conference held in Chicago and under the resolutions adopted by that conference.

Senator REED. But we may want your opinions.

Mr. FORGAN. You are entitled to them, but if you will confine yourselves to the subject upon which we have prepared ourselves I am sure you will be much better posted.

Mr. SHAFROTH. Mr. Chairman, I move that the committee do now adjourn.

The CHAIRMAN. It is moved that the committee adjourn, and we will therefore take a recess until 2.30 o'clock p. m.

(Thereupon, at 1.10 p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. The committee will come to order. Gentlemen of the committee, Dr. Johnston was invited from Kansas City to address the committee. He is the president of the National Reserve Bank of Kansas City, Mo. He wishes to be heard, and I have requested him to appear before the committee, and I will ask the committee to hear him, and then we will proceed with and conclude the cross-examination of Mr. Wexler, if there be no objection.

STATEMENT OF DR. JOHN T. M. JOHNSTON, PRESIDENT OF THE NATIONAL RESERVE BANK, KANSAS CITY, MO.

Dr. JOHNSTON. I am president of the National Reserve Bank of Kansas City, Mo. Mr. Chairman and gentlemen of the committee, I feel like apologizing for differing from these men who are here giving their views and opinions and arguments on the currency bill, and I should not be here to-day had it not been at the special request of Senator Owen, with whom I have been associated in a confidential and business way for many years.

Let me say that I believe in these men who are here making their arguments before this committee. I believe in them collectively, and I believe in them personally. I believe each of these gentlemen possesses character, capacity, and conscientiousness. I believe that every move they have made up to this time and at this meeting of this committee has been done unselfishly and patriotically.

Therefore it is the more embarrassing for me to differ with them, and especially two of this committee; it is especially embarrassing as a St. Louisan, for I have known Festus J. Wade for many years. I have seen him come up from a newsboy on the street and a driver of a mule car, and on up until he is to-day the financial head and leading spirit of what we count one of the greatest, if not the greatest, financial institutions in the central reserve city of St. Louis. I believe in him. This is evidenced by the fact that when he had a vision of a financial institution in St. Louis, and asked me to become a stockholder, I did so at once. And so I found myself having a quarter of a million of dollars invested in his plant. My faith has not been disturbed, but has grown, as is evidenced by the fact that I am still a stockholder. Yet I have sold enough of the stock of his institution to clear me $50,000. So you know that I believe in Wade. Mr. Reynolds, over there, is another man in whom every banker has the utmost confidence. Only the other day I called him up by phone from Kansas City and asked him if I should need half a million dollars in a certain deal, temporarily, could I get it? He said:

Johnston, you can get whatever you need. Go on.

So you can see how embarrassing it has been for me to differ with these men, and I wish to say, gentlemen, that the only reason we could differ is because of the viewpoint at which we stand and from which we look. We are looking at this proposition from different viewpoints. You know, the bigger the proposition, whether it be a big subject or a big object, the comprehending of that object or subject, the grasping of it in toto, its greatness, depends upon the viewpoint from which you look at it. These gentlemen are looking at this question from the viewpoint of all our monarchical and oligarchical governments.

Every monarchical or oligarchical government, whether it be presided over by a king, an emperor, a czar, or a mikado, believes in centralization of power. They stand for it. The reason that we can say truthfully "London is England" is because all power is centralized in London. Political power is centralized there because of the House of Lords and the lower House. Religious power is centralized there because in London is the centralized power of the Church of England. Monetary power is centralized there because of the Bank of England. And the reason that London is England in a large sense is because of centralized power in London—religious, political, and financial.

It is the same with Germany. I need not go into that in detail. It is the same with Italy. Religious, political, and financial power are all centered there. It is the same with France. It is the same with all monarchical or oligarchical governments.

These old Governments are founded on the basal, fundamental idea of centralization of power. But when the Pilgrim Fathers came across they had this idea: They came as Pilgrims seeking a new land with new ideas and new ideals, and one of the ideas and ideals was to decentralize power. That is what they had in their minds. And when they came to this country the fundamental basis of the decentralization of power was controlling every movement. Consequently when this Government was established by our Pilgrim Fathers New York was naturally the financial center, the center of

monetary power. They knew it. They well knew it. But instead of following the old monarchical lines of centralization of power they placed the governmental power, the political power, as far from the financial power as it is possible for the two to be placed. When they came up here and established this place, Washington, as the place of political power, the place of governmental power, they went as far as they could from the center of finance. It was more then, gentlemen, than going from New York to San Francisco to-day. It took longer to come to New York by stagecoach than it would to-day to go to San Francisco.

This Government, whether democracy or republicanism, has as its basal, its fundamental, idea decentralization of power, and that is the basis on which republics are founded. At least, that was the motive behind the foundation of this Government by our forefathers.

Let us not for a moment consider, gentlemen of the committee, that decentralization of power stands for the same as "scatteration." Our forefathers never scattered. They shot straight. The men at Lexington and Bunker Hill shot straight to the point. Do not get mixed up. There is a vast differentiation between the word "concentration" and the word "centralization." They believed in concentration versus scatteration, but they disbelieved in centralization of power—political, religious, financial, or monetary; and as all power had been centered by monarchical governments in one place, that is natural. You know why.

Now, in order to make it short—because I must go this afternoon, if possible to get out of here; I have told Senator Owen I was sorry that I had to leave, but I have to do it—I think the best way for me to present the views as I see them is to take the ideas and recommendations of this committee here, and I take them from what I take to be one of the great newspapers of America. I clipped this from the New York Times, which is distinctly a great paper. I think it is the best general financial paper; but, anyhow, it seems to be the representative of the men who are arguing this question before you, and I simply clipped this from that paper.

I was bluefishing, by the way, boys, day before yesterday, at 6 o'clock in the evening, and I got this message to come up here. I was away on the Sound with my family in a little cottage over at East Hampton, and I landed 27 bluefish day before yesterday afternoon. They were cooked by the deft hands of the little woman I love, and I tell you they were fine. I came here under protest, and feel sorry for this committee, which has not had time to bluefish this summer. You have my sympathy.

But, gentlemen, you are at the greatest task; you are facing the greatest problem that ever faced an American statesman. The tariff bill is important, and some of us are rejoicing that it is being worked out wisely and, we believe, satisfactorily to the country as a whole. But this problem is infinitely more important than the tariff question. Why? Because it is basal. It has not only to do with the achievements and the advancement of progress in this country as it affects the men who are interested in the tariff question and are connected with it, but every industry in the United States is dependent upon the wise settlement of this problem. Not only that, but world-wide conditions will be affected and influenced by the wise settlement of this question; and to-day, as this is the last word, the last say of

any of the great Governments on a financial measure, upon a monetary platform, of course it should be the most perfect bill and the wisest bill that has ever been wrought out by man, because it should be so wise and workable that all Governments of earth will be sending their experts here to see our method and how we have worked out this great problem.

Let us get at it; and I will try to give you this in a very few minutes. From the Times I clipped the following suggestions, as I came up here yesterday afternoon. I did not land here until last night. I clipped this from the New York Times. If it is not a correct interpretation of the ideas for which the committee stands, I should be pleased if they would speak and correct it.

The more important changes in the currency bill proposed by the Chicago conference of bankers, in brief, were: First, 1 Federal reserve bank, or at most 5 instead of 12.

Here again is that question of viewpoint. This is centralization of power. Democracy and republicanism stand for decentralization of power. The bigger the object or the subject that you look at, the more necessary it is for you to get the right viewpoint.

I remember going to Alaska a few years ago to study the biggest things there—her glaciers and her gold fields. As I stood before one of the great glaciers there, 1,000 feet high and 3 or 4 miles wide, coming down between two great mountains like a frozen Niagara, there a great wall of ice, with all the colors of the rainbow in it, I could not get within a mile or two of it because every few moments great icebergs were breaking off of it, and it stood there 1,000 feet high, like a mighty frozen wall of power. There were icebergs bigger than the Washington Monument, bigger than this Capitol, bigger than the District of Columbia. They were coming off all the time—so big that they could float for 10 years and then strike a *Titanic* and sink it, with all the melting of a decade. It was a very great sight, but it was a very different one when I climbed with my alpenstock and got up on her peaks and pinnacles and there tried to see back to the pole that has just been discovered. It was a different point of view. It was a different comprehension of the whole thing, this viewpoint from the ocean and the one from the glacier's peaks and pinnacles.

These men look at this subject from the viewpoint of the centralization of power, as I see it. I think, of course, that their judgment is better than mine, and I ask you to give careful weight and consideration to all they have said and all that they say, because I believe in them, gentlemen. They are men of honesty and probity and great capacity. But here it seems to me that 5 should be the minimum, 12 the maximum, and 7 the ideal number. Why? First, it is the decentralization of power. Let me say that. And, second, it is putting the Government close to the people, this Bank of America—we may call it that; I do not care what you call it—and it will be greater and more solid than the Bank of England or the Reichsbank of Germany or the Bank of France. Put one of these Federal reserve banks in five or seven regional districts. It is democracy. It takes the power close to the people and gets the people close to the Government. That is one reason; but aside from that, our banking system has been a system of decentralization. Why? Because we have had three central reserve cities—one in New York, one in Chicago, and one in St. Louis.

Money, it is true, flows east like water flows down hill, and our money naturally flows east; but in the outworkings of our monetary system under which we have been working for fifty and one years, it is marvelously attributable to such men as Mr. Forgan and Mr. Reynolds, especially, those old bankers who have weathered all the storms, under the handicap of this war exigency bill enacted 51 years ago to meet the war debt. It is marvelously attributable to the achievement of men like Mr. Forgan, for they have weathered it through to this day and have made it workable.

Money has been in the habit of flowing in these three central reserve cities, and not to take in these three central reserve cities as Federal reserve cities, it seems to me, would be in a sense a revolution that is not necessary and that is unwise.

In addition to these three central reserve cities, which good gumption would immediately be impressed with the fact that they should be each a Federal reserve city, there should be at least two more, one in San Francisco and one in New Orleans; and it seems to me that would make the bill wise and workable.

But it seems to me it would be more perfect and more desirable to have seven Federal reserve cities. Why? Because each of these Federal reserve cities might want to heavily dominate in capital or power the other Federal reserve cities. You should segregate them, like New York, for instance, which is a colossal institution by itself, and make that a reserve city, and the district which is near it, putting in the whole of New York State, for instance, and having another eastern reserve city, which it seems to me should be Boston, because it is the natural thing. Boston has a trade and commerce—you know that—and a clientele, a financial clientele, not only in the moneyed interests, but in population. All that New England district is thickly populated. In these Federal districts you must look a little at population as well as territory. Therefore it seems to me that it would be wise to make Boston another, which would be six. Then one of three cities to make it seven—that is, either Kansas City, Denver, or Omaha.

Senator NELSON. What about Minneapolis?

Dr. JOHNSTON. All right, if you want to make it eight. I simply put down the cities on the map as I came up here yesterday. I picked them out as I saw where the trade channels run and where it would be the wisest to place them, and it seemed to me that seven were absolutely necessary and would be the perfect number.

Let me go on, because I must get away. I want my friend Wade to have all the time he needs and I want you to listen to what he says. He has proven to me to be personified wisdom, up to this date. If you wish at any time after this to ask me further questions as to why five or seven instead of one, I should be pleased to answer them. I have only brought out the basal fundamental reason, that democracy and republicanism stand for decentralization of power, and not centralization.

Second. Membership in reserve banks should be voluntary instead of compulsory, for national banks, as now provided in case of State banks.

I do not think that is wise, gentlemen. Why? Because this law is not to be an experiment; it is to be a fundamental, actualized, abso-

lutely successful working law, and if you make the national banks voluntary, of these 7,400 perhaps 3,000, or 4,000, or 5,000 have a banker who is conservative—and the best banker is always a conservative one—and he will kind of wait and feel his way and see, and you have got an institution started with you know not what capital; you know not where you are. I think that is a mistake from the standpoint of the assuring of the bill an unqualified success. You have got to know at least approximately what you are doing, and to namby-pamby this matter and go at it in this gingerly way, so that the national banks can come in if they want to, and if they do not they can stay out, I think that is a mistake from the standpoint of the dependableness of your capital; and that capital must be larger than any capital of any bank in America—and we have got one. I mean by that, the number all together, because we will make the concentration. We have got a bank of $25,000,000 capital.

Third. Subscription to capital of reserve banks should be 10 per cent of member bank's capizaliation, instead of 20 per cent.

I have thought about that a great deal. There is something to that. I have discussed it with some of the men since I came up here. I asked if they wanted the full 10 per cent paid, and they said, "Yes; that would be all right." That is not good banking. A great banker, one who stands for aggressiveness as well as conservatism, must feel that confidence that comes from the reserve that he can pull on. It is a mistake, whatever you make it, not to have reserve power. The individual bank as well as the individual man who has not more reserve power left, holding back for emergency, is not as big a man as the man who keeps something back for a great emergency. I believe that 12 per cent would be wise and workable. Eight per cent to be paid in and 4 per cent left as a reserve. We must have a reserve.

Suppose we utilize this in the case of some great stringency, some crop-moving period or other financial stringency. We want a reserve; we must have a reserve. That would make each bank contribute only one-eighth of its capital instead of one-fifth. It is quite a difference. I believe that in making it one-eighth, with 12 per cent, with 8 per cent to be paid in, with the 7,400 national banks, together with the other State banks that would come in, it would make the paid-up capital of these reserve banks at least $100,000,000 on the start. It should be. In other words, if there are seven reserve banks—I will take it for granted that you believe in perfection, and if you will study the Bible you will find that seven is the perfect number and the most oft-repeated—that would be practically an average of $15,000,000 a piece. Some would be more and some less, according to the district.

If you want to ask me any questions, I must hasten. I would be glad to discuss this further were it not for the fact that I must leave shortly.

I believe, gentlemen of the committee, that 12 per cent is sufficient. I do not believe 10 per cent is sufficient. I believe 8 per cent is sufficient to pay in on the initiative. It will not be quite so revolutionary as 10 per cent; and yet, remember this 4 per cent reserve, this 5 per cent reserve, which every weighty, poiseful banker must feel that he requires.

To remove control of Federal reserve banks, Federal reserve board should be made up of the Secretary of the Treasury, three members named by the President, and three elected by the member banks, in place of the board being made up entirely of presidential nominees.

I know that is a very delicate subject. I hardly know how to express myself on it; but, gentlemen, control must be somewhere. If there is anybody we can trust, why not our own President—the man who has felt the throbbing of a soul expressed by the confidence of 100,000,000 people? If there is any dark streak in him, if there is any selfishness about the man, do you not think that the weight of his position, the honor of it, the confidence expressed, will steady the man and make him come up to the mark, if he has the graces and virtues of an American gentleman?

I will tell you, gentlemen, I believe that all our Presidents have been providentially nominated and elected—Washington, Jefferson, Lincoln, Cleveland, Wilson. It is hard for me to say that, because I was voting over at Baltimore for another man, a typical Missourian. But after a man does the best he can to achieve a thing, and then fails, I take it for granted that it is providential. That is my theology. I believe it is providential that Woodrow Wilson is the President of the United States. We can trust him.

Senator NELSON. I just want to say to you that my friend to the left here [Senator Reed] rather thinks Mr. Bryan, more than Providence, had something to do with that.

Dr. JOHNSTON. I thought about that when I was talking.

While I believe in the wisdom of the original bill, I do not believe that it is an absolutely perfect bill, by long odds; in fact, I do not think it is any more perfect than the bill that you recommend here. Yes, I do. I think there are some absolute elements in it that you did not touch at all. It has solved with a center shot the most important thing in our monetary law for this great, vast country, with regard to this elastic feature. It solved that right on the start, so that our money automatically expands in crop-moving periods and stringency times, and automatically contracts when they do not need it. They solve that in that bill; and that feature, considering the world-wide conditions, is one of the most, if not the most, important feature in it. Do you gentlemen realize that for the past six months there has been—but this is not for publication.

The CHAIRMAN. Yes, it is, sir.

Dr. JOHNSTON. I will say it. We all know it; every banker knows it. There has been almost a quiet panic going on throughout the world; and that is the basal causal reason that the bankers of America are working for immediate action on this bill.

Do you understand that this bill, which was established in 1863, this bill under which we are working, was established to meet a war exigency, and it was for the purpose of putting those 700,000,000 bonds out—those 2 per cent bonds—to raise this money for this war bill? That was the main feature of the bill then; but, gentlemen, look at the elastic feature. And why has it worked all these 51 years? Mr. Forgan could answer this better than I could; but I will tell you one reason. It is because we have had a place for our expansion. We have had the wealth of 1,000 years accumulating in England and Germany and France and continental Europe; and when we have got hard up here, until seven or eight years ago, we got all we needed right

over in London, until the war came up—that is, the African war—and they began to build great battleships to protect themselves against possible war with Germany, and various other things came up, and, finally, four years ago, they quit taking our money. Four and a quarter was a big rate, and we could always get it there. Then they kind of stopped. Then, until two years ago, we got all we wanted in Germany at 3½, or 3¼, or 4¼. Germany, with her industrial development, largely, and with her commercial enterprise, has spent a vast amount in building the second greatest navy, next to England, to compete with England. Then she shut up, and now Germany is wanting money from us and offering us 6½ and 7 per cent; and money in Hamburg and Berlin is to-day selling for 7 and 8 per cent.

Then we had France, and even until a year ago she was the natural outlet. We could get it; we could always find it there; but a year ago they took over $100,000,000 Frisco bonds at a rate of about 4.60 per cent; but now, since the war scare arose, these French citizens, women as well as men, are taking their money out of the bank; taking the gold, too, and to-day France is not only wanting securities, but she is really getting to the point where she wants money from us.

Six hundred million of stocks and bonds have been cashed from Europe in the past nine months, and because of our commerce here in this country, our great development of this vast territory, so many things have gone on that we have, in the last decade, gone up. We have increased four billions in our debt outlet and have increased two hundred millions in real money, gold or its equivalent.

So, now, every country on this earth—Japan, China, Russia, the Balkans, England, France, all the countries, are not only cashing on the stocks they have been taking from us, of which they have taken $5,000,000,000 worth in the last 20 years, four billions of that being railroad stocks and the other billion in various industries, but they are knocking at our doors for money.

Therefore we need immediate action on this bill, because as perfect a bill as possible is needed on account of the world-wide conditions demanding it, and to put it off shows a lack of courage or brains to face the issue and work it out as wisely as possible.

Now, listen:

This board to be appointed by the Government.

There must be control lodged somewhere. I am willing to trust the Government. I am willing to trust Woodrow Wilson and his associates. As for the number, seven seems to be the perfect number, and that is all right as I see it; but I believe, gentlemen of this committee—and I suppose you want me to be frank. I know nothing else. A westerner, you know, is nothing else but frank and honest. That is the only way a banker knows how to be, if he is trained in the West—I believe it is a mistake to put the Secretary of Agriculture on this committee. Do you want to know why? Never in the history of America has there been such an initiative movement to develop the resources of American soil. American possibilities are right in the soil, and the movement was initiated by Secretary Wilson, a man whom I personally know and love. I remember once taking a long trip across the continent with him, and he told me about taking the initiative in training soil physicists. He called them physicists. I had never heard the word before he told me about it. He was send-

ing soil specialists all over the arid country of the West and down into the Southland to study every local condition of soil; and properly meeting that condition of climate and soil would prove the most resultful thing in dollars. And he told me how for 16 years he had been working on an awakening agricultural movement in America that we have been following up, but the surface of whose possibilities and resources have been but scratched.

I thought when I talked to him:

No wonder you were kept through both administrations of both Republicans and Democrats for 16 years.

He impressed upon me the thought that the Secretary of Agriculture is the most important place in the Cabinet. The other day I attended, at the Baltimore Hotel in Kansas City, Mo., a convention of agricultural bankers, they are called, representing nearly every State in the Union. A gentleman of the tribe of Israel, reminding me of my friend here, was there from Texas, and he was a steam engine in breeches. He is awakening the whole of the Lone Star State to the possibilities of that kingdom.

And by the way, Senator Reed, your questions this morning in regard to area were wisely asked. Why? Because Texas alone is important. She is as large as Continental Europe, and one of our Territories, Alaska, for which we paid less than a postage stamp an acre, is larger by far than all Continental Europe and has more resources—when you study her coal, her timber, her fisheries, her gold—than any of the great Governments of Continental Europe.

Mr. WADE. You do not give a reserve bank to Texas, though.

Dr. JOHNSTON. My friend, we are giving two southern cities banks, New Orleans and St. Louis. Your city is a southern city, my friend, and I think that the South, if she gets two, will do well. This is a southern city. She will do well, if she gets New Orleans and St. Louis.

Senator NELSON. What about Atlanta?

Dr. JOHNSTON. Atlanta is a great city, but you know the Panama Canal makes New Orleans an essential place, absolutely, and the Panama Canal makes San Francisco a necessary place, and the central reserve cities. These three are necessary places, because we want to disturb the usual flow of money as little as is necessary, and it has been going into those channels for fifty odd years and successfully so.

And I would state that I believe in the men who are running the banks of Chicago and Kansas City. As far as that is concerned, I believe in New York also. Let me say, by the way, here, gentlemen, that I have no prejudice whatever against New York State or Wall Street in New York City. I have been banking for 28 years. I started a bank with the first $50 that I had, and I had a hard time getting it together, too, I tell you. I am still president of that bank down in central Missouri. I have never asked Wall Street for a dollar, under any conditions, but what I have received it right off the bat. And to-day, if I wanted $1,000,000, I would go right to Wall Street. So you see I have no prejudice. In fact, I think that her bankers there are distinctly great men. One reason I believe in New York so much is that they are mostly western fellows.

Senator SHAFROTH. If they would give me $1,000,000 I would think they were great, too. [Laughter.]

Dr. JOHNSTON. Listen. I have no prejudice against New York, but let me tell you, gentlemen, that New York should take her place. The centralization of power has made London, England; Paris, France; Rome, Italy; Berlin, Germany; but New York is not America. It is not the United States, because the political power has been decentralized, and there is none, and you all know that. New York State possesses one-tenth of our population and about one-fifth of our wealth, and I honor her and reverence her for her greatness. But there are others.

Do not think, gentlemen, that you would act wisely to take one tithe of time or divert one moment of the projectile personality of a great man away from his duties at this psychological moment in the development of the agriculture of our country. Why, in Missouri alone we have 36 per cent of our soil untouched yet. Think of it. And that is the Secretary of Agriculture's business. What a vast possibility is placed in his hands. These seven men that you appoint have got their souls as well as their hands and their brains full of work; and to take the agriculturist and scatter his potentiality, when we need another man to help him, or two or three, if we are to develop the vast possibilities of this country and make it one of the greatest on earth, is, I think, a mistake.

I think it is a mistake about the comptroller. I think it is a mistake because he is right here working with these 7,400 national banks. He has got his hands full. There never was a man in America so full of work as our present comptroller or the one just retired. I do not believe there has been a greater comptroller since I have been a national banker.

Gentlemen, I do not think that he should be in the bill. But that is a small matter. Those things are all small matters. It seems to me if you would appoint the Secretary of the Treasury, he, of course, should be on it. Then, it seems to me, the wisest thing is for the President to select these other men and leave the comptroller and the Secretary of Agriculture for the great work which they have in hand. But whether they are on it or not is not necessary to the achievement of the success of the bill.

Authority of the Federal reserve board to compel one reserve bank to rediscount paper of another reserve bank should be made optional instead of mandatory.

Here are six banks. Suppose there is a crop-moving period in the South, and a cattle-moving period in our country, and mules moving in another section, and corn in another, and wheat in another. You know how that is. I realize that these Federal reserve boards are owned by the banks of that district. They are controlled by them. Let me say to you that they are controlled locally by the men who furnish the capital much more than the Bank of Germany or England or France control theirs.

I will answer any question on that subject that you want me to, but it will take time.

And so it seems to me, gentlemen, that we must trust somebody; and this board of control is just as much interested in keeping these banks on their feet and on absolutely secure grounds as this bank over there. The whole banking system is a matter of intrenched trust, and the question is whether you will intrench the trust in this Federal board here. Are they bigger spirits and greater men than

the men who look over the whole horizon, the whole field, absolutely unprejudiced? I ask that question.

Member banks should be allowed cumulative dividends of 6 per cent instead of 5 per cent on their shares in the reserve banks.

Gentlemen, I think that is only right and fair, and it is undemocratic and discriminating against these stockholders in the 7,400 national banks to stop at 5 per cent. Six per cent should be the very limit. The Government report, as given in the last census, says that the National Bank of America made and declared dividends on an average of 9¾ cents for the decade which it was reporting. These 7,400 national banks, which you are compelling by this law to enter this Federal reserve are owned not by the officers and directors who are running them, but by 500,000 stockholders in America. These stockholders are composed of farmers and merchants and lawyers and doctors and widows and orphans.

Mr. Wade, when he started his bank, came to me and I believed in him, because he had been an achieving man in other pursuits and not as a banker, and I took some of his stock, because I believed in him. I invested it with that point in view, and he beat 9¾ by long odds. He has paid 18 per cent and pays it to-day. One and a half per cent I get every month from your bank, and I always think of you with love. [Laughter.]

Listen, gentlemen, because you are unwittingly doing an undemocratic and a discriminating thing. These people invest their money in good faith. There are 500,000 of them. The officers and directors own only one-fortieth of these banks on an average. Thirty-nine fortieths are owned by all these widows and orphans and preachers and everybody else. They have got an average of 9¾ per cent, according to the Government reports. You see, you will force them to take 20 per cent on that investment and pay it over here. If it makes up to 5 per cent they can get it, but if it makes any more it goes to pay the Government debt. That is discrimination against these 500,000 men and women, forcing them into an investment which you limit at an unreasonable rate proportionate to what they have had. That is not right; it is not Democratic; it is not Republican; it is not anything but wrong, and 6 per cent ought to be the limit.

Senator CRAWFORD. Was such a thing ever undertaken, even in a monarchy or in oligarchical governments, to compel people to put money into an enterprise and then limit the return rate by law?

Dr. JOHNSTON. That is a question of casuistry, which I have thought about very seriously. It would be very unreasonable to stop at less than 6 per cent, as they can loan their money out for that in the South and West. It should go to that. I think they could see that. There are very many blessings that accrue to the four-fifths of the investments here, making it a more dependable investment, more secure, and, I believe, finally more profitable, and I can see a reason why you could as a committee, in good conscience, limit it to 6, but certainly not less, because of the blessings that will accrue to the remainder by their investments, of course. That comes from your interpretation of whether it would be a blessing, which I believe we bankers think is the case.

I must hasten, because I do not want to detain you here.

You know the reason. I will say this while on this subject, that there is a dignity and a poisefulness and strength that the national

banker has that the State banker has not. You can say what you please, I was very proud of the day when I became a national banker, instead of a State banker, which I have been for 28 years; and you feel that you have got the Government behind you, and to kill these national bankers with a State charter would be a most grievous error.

Mr. FORGAN. There is no intention of that.

Dr. JOHNSTON. I am very glad to hear that, because I did not know that at all. I had taken that all back.

Ninth. That reserve banks be barred from rediscounting paper drawn to carry securities other than stocks and bonds.

The CHAIRMAN. That is a mistake, Doctor. We need not discuss that.

Dr. JOHNSTON. I am very glad that it is, because if it is not a mistake it is certainly a big blunder. [Laughter.]

Tenth. That the required reserve of country banks be reduced from 15 to 12 per cent, of reserve city banks from 20 per cent to 18 per cent, and central reserve city banks be fixed at 20 per cent—10 per cent in vault and 10 per cent in reserve bank.

Let me say that I think that is absolutely wise.

Mr. FORGAN. It has been reduced.

The CHAIRMAN. The House has made that reduction.

Dr. JOHNSTON. That is absolutely wise. I will tell you why. Now, listen; Mr. Forgan and Mr. Wade and Mr. Reynolds well know that the time may come, and I hope it will. [Turning to Mr. Reynolds:] I want to see your face. I did not know you were here. If I say anything about Mr. Reynolds, I should like him to hear it. I hope the day will come when these reserves and these banks will not only be reduced, but the time may come when they can be practically wiped out. Let me tell you why. They can not be now, because of the many difficulties. So, I shall perhaps recognize bankers of the Southwest who are new men and not trained bankers, and we have held them in hand. But I do hope the time will come, and I believe it should come, when reserves would be gradually lessened, and the day may come when we get to be perfect bankers, when we won't have to limit that even to this much reserve.

The CHAIRMAN. I would explain to you that the retirement of some of the members of the committee was because of a roll call.

Dr. JOHNSTON (reading):

That limit on farm loans be raised from 9 to 12 months.

That is all right.

I do not think that is essential either way. It is not essential to put it in or leave it out. I do not think it is basic or fundamental. I know that we have one side of our bank where we have taken that on—savings deposits. It is only about half a million dollars, but oftentimes it has been taken out and built up on the other side. I think it has been some advantage; but there are disadvantages, where a great mob of people come into your bank—all sorts—and so I do not know but what, on the whole, that is a wise recommendation. I believe it is, really.

Mr. REYNOLDS. We are glad you approve of it.

Dr. JOHNSTON. I do not believe it is a wise thing, and my idea is that our officers would prefer that we did not have it; if it was not a builder up to the other institution we would rather not have it. I

believe it ought to be left out. I will say that, although it is not absolutely fundamental.

That the section providing for savings department in national banks be stricken out.

I agree with the committee that it should go out.

That the proposed bank notes be issued by the banks under the control of the Comptroller of the Currency instead of having Treasury notes issued by the Government.

Well, that is the biggest thing that we have struck yet. It would take me longer than I have, in order to allow Mr. Wade three hours for his speech this evening, for me to go over that. I think that either one of them will answer the purpose of this law. I believe with the issuing of the Treasury notes it would give a stability and prestige and dependableness world-wide, national and international, that this bank would not have without it. There are fundamental causes for arguing on both sides of this question. I believe these men are wiser than I am that are arguing this question and have put this in, and I think there must be some great reason which they have wrought out or they should not have put it here. However, I should not be afraid of the Treasury notes, as I see it, but it may be because of my lack of perspicuity and grasp of some of the whole of it—summum bonum.

I better not go into those arguments. I think there are some good arguments for it as well as against it, but I do not think that is fundamentally necessary to the success of the bill either one way or the other. They recommend that the 4 per cent be kept in the central city bank or reserve city bank. I believe that is a good thing. I will tell you why, because this bill in a sense is revolutionary and it must be in order to be a success. There are conditions that wait and wait on, like the conditions in Mexico, and we have been waiting and waiting and waiting, until something absolutely must be done which is courageous, and our President is doing it, and I hope he will continue to do it along the lines he is pursing. If it brings intervention, let it bring it.

There are some things that require revolutions. We have been working along with this law, having this Aldrich-Vreeland makeshift as an expensive outlet, and that is out now in a few months. Something must be done. It is revolutionary in this sense: For instance, I figure it will take sixty millions out of one bank in New York, the City National, and if we continue to keep the 20 per cent it would cause them to have to put up $5,000,000 to their capital, or 20 per cent of $25,000,000—$62,500,000 at one time. That is only proportionately to the other national banks. Of course it is more acute in central reserve cities, touching more heavily my friend Reynolds and my friend Wade in St. Louis and those banks than the reserve cities of which I am a member; but I have figured it would take out of St. Louis at one time from our national banks and what would it take out of Kansas City? It would take $22,500,000 out of Kansas City and put it in the Federal reserve bank.

That is in a sense revolutionary, but they have got to prepare for it in order to do it, and in this preparation they have to collect money and all of that. I figure that in one bank in Kansas City, my own city it takes out $9,000,000. You figure they can go and get it the same day over here at this Federal reserve bank. I say, "No; they could not." They could do it, but any banker would

lose his dignity and his prestige and sense of courage to not prepare for this, if he has to go and get the same amount that is taken out the same day. And besides, gentlemen, a banker—a good banker—conservative though he may be and aggressive, as he should be—builds his bank with this thought—to get money in rediscounting, whether it be from a Federal reserve bank or any other bank only in emergencies and only for a short time, and the banker who does business with our bank or Mr. Wade's bank or Mr. Reynolds's bank who does not settle up at least once or twice a year, at most—and it ought to be much more than that—we begin to send the examiner down to see what is the matter.

I want the dignity of the national bankers to be preserved, and I take it for granted that it would take about $2,000,000 out of our institution and put it over here in one day. What I will do, and I believe every other banker will—what Mr. Wade will do and Mr. Reynolds will do—is to go in and get ready so he will not be compelled to borrow money from the Federal reserve bank in order to do this.

The CHAIRMAN. We will have to suspend, as there is a roll call in the Senate.

Dr. JOHNSTON. All right.

(At this point the committee took a short recess, after which the following proceedings were held:)

Dr. JOHNSTON. I did not realize that I had talked an hour until I looked at my watch.

I will not go into this thing. Let me say this, that when you put this law into execution consider the timeliness in the matter, the time it should be done, and make it either the 1st of February or the 1st of March, because you want to make it as easy on the national banks, especially, as possible. It will not especially affect 7,350 of the national banks at all, but it will greatly affect the 47 or 48 reserve city banks or central reserve city banks, and to take this amount of capital that they have to supply and the amount of deposits which will come from these banks and put them in the Federal reserve banks you should select the most auspicious time, the time that would be most propitious for them, and that is the 1st of February or the 1st of March, not sooner than the 1st of February nor later than the 1st of March, because let me say that this committee will be intensely interested in making this law so wise and workable as to receive the enthusiastic support of all bankers of America, both National and State, and anything that you could work in to please these men that does not antagonize some great basic, fundamental law, I believe should be done. I believe the bankers should be thoughtfully considered and everything given to them that can be done to make them happy in the bill and supporters of the bill. This is necessary for a triumphant success.

One more word. The 4 per cent which they recommend to be optional with all the banks not in reserve or central reserve cities will help them greatly, and I do not believe it will hurt materially this bill. I have said, and I have figured on it from every standpoint, and I believe with that in the bill and limiting the number to five or seven, I believe that you will have the hearty support of this committee and every central reserve city. I believe that you ought to weigh that suggestion thoughtfully before you turn it down. I should like to see it placed in the bill.

A closing sentence. I feel I should congratulate this committee and this country because all of us are patriotic enough to want a perfect law, a wise and workable law. It is to every American's discredit if it is not so, and if it is so you will see this vast country go on by leaps and bounds in aggressive advance to prosperity and achievement. We are now 60 per cent richer than the richest country of Europe. France has more money per capita than we have, but she has only 43,000,000 population, but our 100,000,000 people have much more than France as a whole, and if we increase in wealth in the next decade as we have in the last, we will have passed in 10 years England, Germany, and France altogether. And, gentlemen, we have got to have a bill with vision and plan enough to meet this vast growth of our country. A centralized bank in the United States, it seems to me, would be similar to a European bank covering all the countries of Europe, because many of the 48 States have greater wealth and greater resources and greater territory than any of the continental European kingdoms, and we do not hear of European banks, which would be more sensible than a centralized bank here.

Let me say I congratulate the people of America in having the present chairman of the Senate Committee on Banking and Currency. You will excuse me if I say to you that for many years I have been an associate in business with Senator Robert L. Owen. We are to-day directors in the same bank, and have been for many years. He founded that bank twenty and two years ago. The first charter was given to Robert L. Owen for a bank in the old Indian Territory, which now is the State of Oklahoma. The charter was renewed two years ago.

I count this Nation peculiarly fortunate in having a man as chairman of this committee who is not a novice in things financial. We count him one of the three great financiers of the State of Oklahoma, and he is far superior to the other two. We count Senator Owen for concentrated, systematic, orderly thinking on things financial and things monetary and things banking as an expert. I say this without his knowledge and without his consent. I respect men like Mr. Wade and Mr. Reynolds on things financial, because I know them so intimately, but my respect for the building of a monetary law for this great Nation is greater for Robert L. Owen.

The CHAIRMAN. Mr. Forgan, you had a program to suggest, and I think you had better do that now.

Mr. FORGAN. Mr. Chairman, the program that we have laid out is for Mr. Wade to follow Mr. Wexler.

The CHAIRMAN. On what topic will he speak?

Mr. FORGAN. He will explain to you why there should be no compulsion of American banking associations within one year to comply with the provisions of the act, and also why the banks should have minority representation in the formation of the Federal reserve board, so that the board would be formed, as suggested in our report, of the Secretary of the Treasury, ex officio, three members chosen by the President of the United States with the approval of the Senate, and three members elected by the directors of the Federal reserve bank.

That will be followed by Joseph Chapman, of Minneapolis, who will explain why the Federal reserve board should not be given power

to require, but only to permit, Federal reserve banks to rediscount the rediscounted paper of Federal reserve banks.

Then Mr. Wexler comes on again to explain why the Federal reserve board should not have the power to add to the number of cities classified as reserve and central reserve cities under existing law, or to reclassify existing reserve and central reserve cities, and to designate other banks situated therein as country banks at its discretion.

That will be followed by Mr. E. J. Hill, who will take up two subjects, first, in regard to the 5 per cent redemption fund, which is now in the general fund, and why that fund should not be deposited in the Federal reserve banks as part of the Government funds in the bank. Also Mr. Hill will take up the entire question of note issue and give reasons why the circulating notes should be the obligations of the Federal reserve banks and not of the Government.

Then, Mr. Maddox has been assigned the subject of why the Federal reserve banks should not be required to receive on deposit checks through the country at par, but should only be required to receive at par checks on other Federal reserve banks.

And Mr. Reynolds will be assigned the subject of why the requirements of bank reserves in the measure should be reduced to the percentages recommended in our report. Mr. Reynolds will be followed by Mr. Maddox again, who will take up the question of bank reserves, and our reasons for recommending a reduction from the amounts that were in the bill when we had it under consideration.

I understand that has been since changed.

Then Mr. Maddox will follow with the subject why the section relating to savings departments in national banks should be left out of the bill as recommended in our report.

In rereading the bill as it has come out of the caucus, that paragraph has been so altered that I think probably—I do not know—the resolution passed at the conference, but it would not have been necessary if it had been in its present condition, but we assigned this when it was under the condition that the investments they could make were classified and segregated, etc.

That will complete our program.

Senator SHAFROTH. Mr. Chairman, I move you that inasmuch as these gentlemen are here and no doubt want to get through as soon as possible that this program be observed as reasonably consecutive as we can make it, and that we hear the first persons whom Mr. Forgan has named.

Senator NELSON. In the order he has named them. I second the motion.

Senator REED. Does that mean that we can not ask Mr. Wexler any further questions?

Mr. FORGAN. Mr. Wexler will be on again, and I would just say that Mr. Wade is particularly anxious to be heard, as he has another important engagement with the department.

Senator REED. I just wanted to ask Mr. Wexler two questions that I think of.

The CHAIRMAN. After you conclude with those two questions to Mr. Wexler, then it is understood that we will follow this program?

Senator REED. Yes.

(The motion was carried.)

Mr. FORGAN. I would say on behalf of Mr. Wexler that he had not had his lunch up to the time the committee reconvened. Mr. Wexler was busy while we were taking lunch correcting his proof sheets, and did not get the opportunity for lunch.

The CHAIRMAN. The committee will now hear Mr. Wade, president of the Mercantile Trust Co., of St. Louis, Mo.

STATEMENT OF FESTUS J. WADE, PRESIDENT OF THE MERCANTILE TRUST CO., ST. LOUIS, MO.

Mr. WADE. Gentlemen, the duty assigned to me is to try to explain to you why there should be no compulsion in requiring the national banks to join reserve associations in a year, and why we think we should have representation on the Federal board of control.

Let us look at the facts as they exist. The writer of this bill assumed that the burden of creating Federal reserve banks should rest upon the banks of the country and not upon any other class of commerce of the Nation. We are asked to contribute more than $100,000,000 in capital, which does not belong to us, as bankers; we are asked to contribute one-half of the reserves that we now hold in our vaults, in order that this new institution may be a success. We make no objection to that onerous condition. But we can not conceive that it can be right that we should be called upon to put up this vast sum of money without representation.

Banking is composed primarily of, first, integrity; second, experience and judgment of credit; and, third, wisdom that is called upon to pass upon the credit commerce of the Nation in order that our funds might be loaned. In the minds of the public we are loaners of money, but, as a matter of fact, we are the greatest borrowers of money of any class of business men in this or any other nation.

Every deposit we have is a loan, an obligation on the part of the institution that takes the deposit not only to pay that loan back as the ordinary borrower does, but be required at a moment's notice to pay same to the clearing-house associations we are connected with to meet extraordinary demands at times when there is trouble, and also at times when everything is placid. The bankers have not asked to buy the stock of the reserve banks. I have yet to find one banker who seeks to increase his proportion of stock, and I have yet to find one who would willingly subscribe for stock of such a bank if others could be found to take it. Why should not the commerce of a nation, the merchant and manufacturer and capitalist, invest in this stock and create this great bank, if it is essential to the development of this Government? Still, we make no complaint. We are willing to accept the provisions of the bill if reduced 10 per cent; we are willing to hand over to you 10 per cent of the capital of each bank that many of us have labored for years to accumulate; we are perfectly willing to turn over to you one-half of our reserve money; we are willing now, as we have always been in the history of this country, to stand shoulder to shoulder in its development; but we believe, gentlemen, that your business as the administrators of this great Nation is no different than in the administration of an ordinary corporation, and we do not think any of you would have the temerity of going before the public with a prospectus to accumulate, by sub-

scription to the stock of a banking corporation, more than half a billion dollars and announce in the start to the people of this Nation who you expected to subscribe this vast sum should not have representation on the board of directors.

I have not the slightest fear that the President of the United States will not name men of integrity. I am absolutely confident of that fact, at least, in his judgment, and I believe when that board is named they will be men of such eminence and of such recognized integrity that every thinking banker will approve them; but the question, gentlemen, is whether each man so appointed will bring to that board the necessary banking experience, the necessary credit experience, the necessary wisdom for the inauguration of this great system at its inception. So I do not approach this proposition with any fear of political control or of its ever getting into the hands of men who are not entitled to the plaudits of the Nation. But I have great doubt about the administration of a board composed of three Cabinet officers, every hour of whose time is taken up from almost daylight to midnight with their respective duties as Cabinet officers, and four other men whom we do not know. We do not ask to name the men; we do not ask that they shall be bankers, but we do believe that on that board we should have men of experience in banking and in credits. The whole success of the proposition lies therein.

Again, to many of us, and I admit I am one, this bill is repulsive. It is a forced measure, a forced bill, the like of which was never put upon the statute books of any nation, where you say to men in the national banking system at this late day:

> You must prescribe to this doctrine; take this stock; give up 10 per cent of your capital and 50 per cent of your reserve money or you must go out of business or out of the national banking system.

Gentlemen, that does not appear to me to be the spirit of the American people; it does not appear to me to be in accord with Democratic principles. It appears to me to be entirely unnecessary. There ought to be, and I am sure there is, enough wisdom and ability in this committee and the committee of the House to draft a bill that will not compel us to come in, but, by the advantages and privileges you offer us, that will force us to knock at the door to get in, and we believe if this bill should become a law it would be a reflection on the Congress of the United States to say to the national banking fraternity of the United States:

> You must subscribe to this doctrine or give up the business that you have accumulated in a lifetime.

I am not speaking as a national banker, although I happen to be one in an infinitesimal way. I am on this commission representing the State bankers and the trust companies, originally the only man on the commission in that capacity. I have urged for six years that you never can have a homogeneous banking system in this Nation until you admit the State banks and trust companies into the general system.

You come along with the proposition to our brother, the national banker, and you say:

> You must either do this or retire from business, liquidate your establishment, or go into the State system.

I plead with you, gentlemen, as a State banker, as one that is extremely desirous of going into the national system, no matter

what rules you put around it, provided it is not a forced bill; and I want to call your attention to the fact that as this bill is framed at present, in my judgment, if it were passed to-day it would be absolutely inoperative to-morrow. You have discouraged those gentlemen who have developed that national system up to its present state of perfection; you have them feeling as though they are no longer to be considered in the class of citizens who are worthy of representation.

One hundred and thirty-seven years ago, gentlemen, the foundation of this Government was based upon the fact that the older country would not give representation for taxation, or forced contributions. This is distinctly a step backward. In no sense is it a step in the line of progress of the Nation.

You have provided for not less than 12 reserve banks.

I want to call your attention to a few statistics here, in which I believe I can point out to you a lurking danger in this whole movement if you will allow the bill to stand as it is at present.

In the six New England States, under your law, there could only be two regional reserve banks. In those six New England States there are 463 banks, and 10 per cent of those banks—just one-tenth of them—if they declined to come into this system, New England would be reduced to one, because your bill requires that no reserve bank can be established with less than $5,000,000 of capital. If you apply that doctrine to the 20 per cent proposition, then you could only have one bank in the six New England States, if they all came in. But I am relying on you to adopt the suggestion that 10 per cent is adequate, and 10 per cent is sufficient, and that in the last analysis 10 per cent will be introduced.

In the Eastern States, New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia, there are 1,650 banks. I could name one-tenth of the national banks that would not go into your system, and those great States would only have two reserve banks.

In the Southern States you have 1,483 banks, and I could name 148 of the more important banks who if they did not go into the system you would have throughout the entire South only one reserve bank.

In the Middle States there are 1,257 banks; and if 125 banks I could name, or one-tenth of them, were to withdraw or decline to come in and take out State charters, it would leave the Middle West without a reserve bank.

Senator CRAWFORD. Without any at all?

Mr. WADE. Without any at all.

Senator CRAWFORD. One hundred and twenty-five banks?

Mr. WADE. There are 1,257 banks, and if 125 banks of the larger banks I could name would not go into the system you would not have sufficient capital left to create a reserve bank of $5,000,000. I have the figures here, and I can demonstrate it.

Senator POMERENE. That is, you mean by that, so many of the larger banks?

Mr. WADE. Yes, sir.

On the Pacific slope, in the Pacific States, there are 490 banks, and if 49 of the larger banks should stay out it would leave that section of the country without a reserve bank.

Senator POMERENE. Would it interrupt you if I asked you a question along there?

Mr. WADE. No, sir.

Senator POMERENE. What reason have you for believing that these banks might stay out of the organization?

Mr. WADE. The reason is that this is a forced bill, first; secondly, that it offers nothing to the banks in the way of an inducement to come in that they can not secure by becoming State banks, except the privilege of subscribing to your stock and contributing one-half of their reserve and reaping the benefits of the institution in the event that it should be successful.

The reason I have picked out the larger banks, gentlemen, is this: There are in the national banking system, as you all know, over 7,300 banks. There are 2,004 with a capital of $25,000.

Mr. WADE. There are 2,704 with a capital of less than $100,000. There is no inducement that I can see now for smaller banks to come into this system.

Senator REED. Why? That is what I would like to know.

Mr. WADE. The reason why, Senator, is this: That the banks in the smaller towns and hamlets of this Nation loan on a class of paper that this bill would not relieve them in times of distress. It is not what you call or what the bill calls "commercial paper." It is generally loaned to a man because the banker knows his whole personality; knows his family—his wife and his children; knows that the farm over there is only mortgaged for $500; knows the little corner grocer who borrows $100 or the little country storekeeper who borrows $500 is just as good for his credit as the millionaire who borrows on his bonds. But if you tried to run a regional reserve bank and endeavored to take over that class of security for your reserve banking association you would have to know almost every man, woman, and child in those communities to be a judge of the credit.

Senator NELSON. And then the time would enter into that.

Mr. WADE. And then again they do not loan money like we do. John Smith walks into his little country banker and he borrows $100 or $200 or $300, and they rarely charge him any interest. He wants to make a loan for 90 days of $100, and they do not charge him any interest. They just charge him about $5 for the loan, a mere incident and contract made between them, and it is perfectly satisfactory, and that class of paper, gentlemen, if you attempt to put it into a reserve bank would require a credit department that would almost take in the census.

Senator CRAWFORD. Mr. Wade, will you permit me right there——

Mr. WADE. Yes, sir.

Senator CRAWFORD. Is it not a fact that with these little banks in small towns and in agricultural communities the loans even to the retail merchants and the very small business men always run until after the crop is sold anyway, whether farmers or not?

Mr. WADE. Yes; and then if the crop is not good it runs until the next crop comes in.

Senator CRAWFORD. And is renewed?

Mr. WADE. Yes; and it is renewed and renewed again.

The loans of a country bank are never cleaned up like those of a city bank or like those of a reserve city bank. Of course there are exceptions, but I am speaking of the general rule. Therefore in

dealing with this subject you must perforce deal with the institutions that are in the larger centers relatively. I do not mean Chicago, New York, or St. Louis, but I mean with the general reserve cities, the cities of 25,000 or 50,000 or 100,000 people or more, not with the towns of 1,500 or 1,000 or 2,000 people or 500 people.

Do not let me be misunderstood as in any sense decrying the country banker. I want it thoroughly understood that he fills his place and he fills it most admirably, and I also want it thoroughly understood that he does not require a reserve bank.

Senator CRAWFORD. That is right, too.

Mr. WADE. He has no use for a reserve bank such as those of us in the larger communities; his correspondent takes care of him. That is what he keeps his money for with us, and great institutions, such as the First National and the Continental Commercial, of Chicago, and the National City Bank, of New York, and great institutions of that kind frequently make loans to these country banks of $1,000 and $2,000 and $5,000 and $50,000, and they will continue to do it.

My appeal to you, gentlemen, is primarily for the purpose of aiding me in interesting the State banks and trust companies to come into this bill, because without their assistance you can not make it a success, in my judgment. Your note issue would be more or less a farce. It would be a rigid note issue unless you get the larger banks of the communities interested, State and National. Why? You issue this currency and the State bank can keep it as a reserve the same as they do for national bank currency, and that is one of the reasons why the national-bank note is not a liquid and rapidly redeemable currency.

A national banker may have his son or his brother-in-law or his friend located in another city take out $100,000 national-bank circulation and ship it over to him and it is just as good in the vaults of the State bank for reserve as gold, and it is accepted. Again, if a careful analysis is made of this bill in the States of this Nation which have good banking laws—and very nearly all of them have good State banking laws—it can be proven beyond a peradventure of doubt that the State bank and the National bank are doing business in competition, each on a corner across from the other, but each making about the same profit and each aiding in the development of the commerce and meeting the requirements of the Nation. Why is it, gentlemen, that with all the power of the United States Government behind the national-bank system it does not progress like the State system? The answer is simple. It is because the laws of the States, as a general proposition, meet the needs of the Nation, as a whole, more than the national-banking system does to-day.

The banking power of the United States, aggregating as it does $22,000,000,000, is only represented in the national system by a little over 36 per cent, and here you bring along a bill at this hour and say to men who in good faith have taken out a national-bank charter and who have gone through panics and carried the Government debt through two wars and developed your country, that you must subscribe to this stock and you must separate with one-half of your reserve money, and you will not have representation on this board, failing in which you drive them out of the national monetary system.

You hear a great deal of discussion about the banks of the older countries, and I was rather amused to find the impression prevailing here that the Bank of England would not permit a banker to be on its board. That is not true; that is not the fact. There is no rule against it, absolutely none. It is only an expression of different terms between that country and our country that has misled the gentlemen who make such statements and who are, I have no doubt, just as sincere as I am, and I have no doubt that they believed everything they said.

A banker over there is termed a banker if he is in a joint-stock bank, or what we would call ordinarily a corporation, and financial houses, which are the greatest bankers of the world, and are not only permitted to have members on the board, but have them, and not only that, but there is a representative of a foreign bank to-day on the Bank of England board.

Where is there a greater banking house in this country, with the possible exception of Morgan & Co. and Kuhn-Loeb & Co., than Baring Bros.? Lord Revelstoke is a member of the Bank of England.

Senator NELSON. And a member of this firm?

Mr. WADE. Yes, sir; and a member of this firm. Morgan & Grinnell, another great banking house there, has a member of the board. They are not banking houses; they are financial houses. This is just a confusion of names.

Senator SHAFROTH. Is not the distinction simply that no person connected with an institution that cashes a check or receives deposits can become a member of the board?

Mr. WADE. No, sir; that is a theory, Senator, and not a fact.

Senator SHAFROTH. What do you think about this statement of Mr. Bagehot——

Mr. WADE. Who is Mr. Bagehot?

Senator SHAFROTH. He is author of the work entitled "Lombard Street."

Mr. WADE. I can not vouch for Mr. Bagehot, but I can vouch for the membership of the Bank of England, and I give as my authority, and you will find it in the volume published by the monetary commission in the interviews with the government of the Bank of England. That is my authority.

Senator HITCHCOCK. It is also stated in these interviews, as I recall them, that there is no requirement at all as to the qualifications of the governor of the Bank of England, except that he must be a citizen of England.

Mr. WADE. Certainly not; there is no requirement of the President of the United States, except that he be a citizen and worthy of the office.

Senator REED. Yes; he must have been born in the country.

Senator SHAFROTH. I was about to read the statement made by Mr. Bagehot, which is as follows:

In London no banker has a chance of being bank (of England) director, or would ever think of attempting to be one. I am here speaking of bankers in an English sense (if those who accept deposits subject to check). * * * Not only no private banker is a director of the Bank of England, but no director of any joint-stock bank would be allowed to become such. The two situations would be taken to be incompatible. * * * The mass of the bank directors are merchants of experience, employing a considerable capital in trade in which they have been brought up, and with which they are well acquainted. * * * The direction of the Bank of

England has for many generations been composed of such men. (Lombard Street, pp. 214, 216; ed. 1910. Same effect Senate Doc. 405, p. 10, by National Monetary Commission.)

Is not that true?

Mr. WADE. I can not, of course, take better authority for my statements than the Congressional Record, and I give you my authority in the volume of interviews between the Monetary Commission and the government of the Bank of England and the Bank of France and the Bank of Germany.

Senator NELSON. That is published in the reports of the Monetary Commission?

Mr. WADE. Yes, sir.

Again, if you are going to apply the English doctrine, we accept it with open arms, because they do not foist the bank stock of the Bank of England upon the banker.

The CHAIRMAN. Mr. Wade, may I ask you a question right there?

Mr. WADE. Certainly.

The CHAIRMAN. Do you then suggest that this stock be thrown open to the public at large?

Mr. WADE. Absolutely so. Why should it not be?

The CHAIRMAN. I wish to have your point of view.

Mr. WADE. Absolutely so; we do not want it.

Senator NELSON. What the chairman means is to the public outside?

Mr. WADE. Why, certainly; let them take the chance and we will subscribe to the doctrine. Senator, you never have yet heard a banker worthy of the name of such demand that he and the bankers of this country should have the stock of this bank. We don't want control; we don't want this stock; we don't want to put our money in it. We can get 5 per cent, anyway, or 6 per cent anywhere.

Senator POMERENE. Did not one of the witnesses yesterday say that they did object, because the moment the public was permitted to have stock in these regional banks that they would immediately want the privilege of doing their banking with the regional bank?

Mr. WADE. He might have said so, and I will go further and say that whenever this Government wants to start an independent bank and go into competition with its national banking system we will not put anything in their way. Destroy, if you will, the thousand millions of capital, the eight thousand million of assets in this institution by bringing in this plan; that we could not very seriously protest, because it might be regarded as a selfish protest. There is not a man in this commission, gentlemen, that has ever approached this proposition from any other than one standpoint, and that is of patriotism and American citizenship.

There is not a suggestion that we have made—I challenge any man to point out one recommendation that we have made that is selfish, and for the particular direct benefit of the banker as against any other class of citizens.

The CHAIRMAN. Do you suggest that opening these stocks to the general public would destroy a thousand millions of capital and eight hundred millions of investment?

Mr. WADE. I do not suggest any such thing; I suggest that we have not the slightest objection to your selling this stock to whomsoever may buy it, and if you are going to follow the management of the Bank

of England control theory, why not follow the bank note capitalization theory. Anyone can buy a share of stock in the Bank of England if they have the money. They can buy a share of stock in the Bank of France or the Bank of Germany if they have the money. These banks were not organized by a forced bill or by compulsion, or by telling a lot of business men that you must either subscribe to this doctrine or get out of business. They were built along the lines of the ordinary business proposition. There are so many ways, gentlemen, that you could open up this bill and make it so attractive in its features that we would be glad to come in. That is the kind of bill that I want to see, not this bill, discarding all the banking experience of nations that have lived 1,000 years; discarding all the power of the great Bank of England, whose whole assets amount to only about $350,000,000; discarding a system that absolutely controls the finances of that nation, but of every other nation upon the habitable globe. Every cup of coffee you drink is bought in pounds sterling; every rope you import from Manila is imported in sterling, franc, or mark. In our own possessions, the Philippines and Porto Rico, with all of our pretended power, our system is so weak that the pound sterling stands where our dollar is practically unknown.

That, gentlemen, is our mission; that is our purpose; we have traveled here to tell you that if you attempt to put a force bill through and then attempt to organize not less than 12 reserve banks with a capital of not less than $5,000,000 each, and confine the subscriptions to national banks alone, it is our judgment that you will not be successful.

The CHAIRMAN. You think the capital ought to be lower?

Mr. WADE. No.

The CHAIRMAN. You think the principal must be lower?

Mr. WADE. I do not think, Senator, but I am absolutely convinced that the number of banks must be less than 12 rather than more than 12. I am not going to advocate a central bank idea, and yet I do not care to be misunderstood. It is a sound, economic principle of banking. It is a system that should be inaugurated, but I realize that it is politically unwise not only under a Democratic administration but equally so under a Republican administration.

Senator WEEKS. You do not mean unwise, but you mean impossible.

Mr. WADE. I mean politically unwise or politically inexpedient.

Senator REED. Politically impossible could be taken as synonymous with political unwisdom.

Mr. WADE. I think you will all agree that if you were to go out into the hustings it would be accepted as such.

Now, gentlemen, our mission is to point out to you the weaknesses in this bill as we see them. Having discharged that duty, we leave the case in your hands, but we believe that the stockholders of this corporation should have exactly the same rights as the stockholders of the corporation known as the United States of America. We believe that the stockholders of the national bank should have the same right that you would convey to any other private corporation and that is representation.

Again, we meet a political situation, and we do not ask you to give us control. We do not want it; but we do recommend to you, and recommend in all sincerity, to provide in this bill that the several

reserve banks, as they may be later constituted, may recommend to the President of the United States a list of eligible men to be on that board and let him then appoint them. We do not want to name them, but if we have five reserve banks, or three, we suggest that we name men whom we know from our practical business experience of years are capable of presiding over the destiny of a great institution such as this is and let the Pesident, from that list, whether it be 5 or 50 names, make his own selection.

I would like, gentlemen, to have you leave this bill as now framed, all of it, for a while. I would like to have you forget the national banking system for a while, and I would like to have you divert your attention to the great strength of the State banks and trust companies that handle part of the commerce of the country. The other institutions build your railways and your waterways and your buildings and till your soil and develop your agricultural and your manufacturing resources. The whole theory of this bill is built upon the national system. There is a provision that the State banks and trust companies may come in under the rules that will hereafter be prescribed. What these rules will be will depend entirely upon the character of the men of the Federal board of control.

I can state that to these national bankers around here, men who have grown gray in the service, and when I tell them that we loan on real estate over the United States, from Florida to Seattle, they hold their hands in horror, and when I tell them those notes are as liquid as their assets, well, they are busy, and they do not have time to investigate, but, nevertheless, it is a fact.

Mr. NELSON. They are more liquid than call loans on stock collateral in case of a panic?

Mr. WADE. We are loaning to-day in Seattle, in Portland, Oreg., all through Kansas, in Oklahoma, and in Texas. We have never had a default on one loan on real estate, and we are making loans to the extent of about $500,000 per month. We are just as important a factor as they are, and you must reckon with the State banks and trust companies in framing this bill if you want to get a homogeneous law, but if after inspection of your draft of the bill you are going to turn the crank and force national men in the system, or retire them from the system, we will have to go into it, and we will say:

Let them try it if they choose, and we will follow if it is a success.

Senator SHAFROTH. Mr. Wade, a few moments ago you made the statement that members of banking houses were in reality members of the governing board of the Bank of England. I had occasion to look at a book entitled "The Meaning of Money," by Mr. Hartley Withers. There he says:

When we come to consider the bank's organization, its most striking features are the constitution of its court of directors, and its system of government by rotation, and these are points on which the bank's critics have fastened with the keenest energy and determination.

The bank court is a committee recruited chiefly from the ranks of the accepting houses and merchant firms, and its members are nominated by itself, subject to the purely formal confirmation of the shareholders; and it is an unwritten law that no banker in the ordinary sense of the word—that is, no one connected with what we call the check-paying banks—can be a member of it.

At first sight this is one of those anomalous absurdities so common in England, and so puzzling to the intelligent foreigner, who can not understand why we suffer them. A court of directors ruling the Bank of England, and so performing most important

banking functions, and yet disqualifying for membership any one with an expert knowledge of banking, is a tempting subject for an epigrammatically minded satirist. But in fact this anomaly, like many of our others, not only works excellently well in practice, but is, when calmly considered, clearly based on sound common sense. For in the first place it would obviously be undesirable that a member of one of the outer ring of banks should have the insight into the position of his rivals which membership of the Bank of England court could give him, unless all the others were similarly privileged. But if all the outer banks were represented on the bank court, it would become a committee of unwieldy dimensions, perhaps reproducing or reflecting in the bank parlor the rivalries and jealousies that stimulate the outer banks to work against one another, but are not conducive to their working together.

And the question of proportionate representation would be difficult to settle. As it is, the bank court, being free from connection with the outer banks except by keeping their balances, is able to watch their proceedings with a wholly impartial eye, and, on occasion, to make suggestions with salutary effect.

Mr. WADE. Let me show you the fallacy of that and how utterly impracticable it is from a practical point of view. Take Baring Bros.——

Senator HITCHCOCK. Mr. Sterling Baring is a member of the Bank of England, but he is not a member of the Bank of England Court.

Mr. WADE. Lord Revelstoke is; he is a member of Baring Bros., and in the directory of the Bank of England.

Senator CRAWFORD. Do they not have what they call discounting houses?

Mr. WADE. I will explain that in a minute. Let me show you how impracticable, improper, and unjust that statement is. I give you the authority of your own Congress as against a writer of a book. Let us deal with Baring Bros. They handle millions and millions, hundreds of millions a year. Do they go down in their vault every time they make a transaction and pick up a bag of gold and say, "Bill, here it is"? When they get that money do they carry the money in a bag? No. They must have a checking system. They are bound to have a checking system. There are three distinct banking houses in the city of London—distinctive classes in their nature. There is the joint-stock bank——

Senator NELSON. Incorporated?

Mr. WADE. Incorporated; then there is the discounting house; and then there are the financial houses; and then there is a fourth, the accepting houses. The joint-stock banks accept and so do the financial houses and so do the accepting houses, and the joint-stock banks will take the acceptance of another joint-stock bank, and the Bank of England will take the acceptance of any other joint-stock bank and discount the paper, and it is a totally different system from what we have here. But it is very near the ideal.

Again, let me show you the fallacy of the fear of having a banker upon a board that would regulate the discount rate for this Nation. Are you going to select seven men who will be so simon-pure in thought and mind and heart, and who will at all times be so discreet and by some operation of an unknown law not be able to tell his friend, the banker, that the rate is going to be raised to-morrow? Is the Bank of England rate ever raised without consulting the directors? Certainly. It is done time and time again by the action of the governor alone without consulting the directors.

Senator SHAFROTH. But it is often done with the consent of the directors?

Mr. WADE. Frequently it is done with the consent of the directors, but the governor initiates it. Again, the Bank of England will

not allow the governor of the Bank of England to succeed himself longer than two years. The deputy governor goes up, and it is a great position of honor. To be a member of the Bank of England board is a passport throughout the world.

Senator POMERENE. Did I understand you to say a moment ago that you feared that this board of control or reserve board, if appointed, would let some of the bankers know what the rate of interest was going to be?

Mr. WADE. No. I said this: That a member of that board was just as apt to do it as a banker member. Let me tell you, Senator. We have in our institutions here in the larger centers what are known as clearing-house examination committees, where we examine a competitor.

Senator POMERENE. I just wanted to call your attention to this fact: You have suggested here that if there was a board appointed under this bill that it might leak and let the bankers know what the rate of interest was going to be to-morrow?

Mr. WADE. No; I suggested that they could leak just the same, whether members of a bank board or not.

Senator POMERENE. Would they not be less likely to leak than if they were bankers named by banks?

Mr. WADE. No; and if they did, it would not make the slightest difference. Let me tell you why. Those of us who are active in the banking business, and who do an international business, as many of us do, watch the report of the Bank of England with just as much care and avidity as we do the weekly statements of the Bank of New York, and we know whenever there is going to be a raise in the Bank of England rate or when there is likely to be one. We do not know specifically when the rate will be raised, but there is a danger point in that statement just the same as the danger signals are known in New York, St. Louis, or any other town, and we can tell when the rate must go up.

Senator SHAFROTH. I hold in my hand the answer of the governor of the Bank of England and the interrogations of the monetary commission. Let me show you what he says here:

Q. Is it customary to reelect directors at the expiration of their terms?—A. It is customary for directors to be reelected.

Q. Is there any custom restricting the class from which the directors may be selected?—A. There is no legal restriction as to the class from which directors may be selected, except that they must be "natural-born subjects of England, or naturalized," but in actual practice the selection is confined to those who are, or have been, members of mercantile or financial houses.

Mr. WADE. That is right.

Senator SHAFROTH (reading):

Excluding bankers, brokers, bill discounters, or directors of other banks operating in the United Kingdom.

Mr. WADE. That is the point I made. I said so, but notwithstanding the custom, they still have on the board a member of a bank recently elected. [Reads:]

But in actual practice the selection is confined to those who are, or have been, members of mercantile or financial houses.

Do you know what a mercantile house is over there?

Senator HITCHCOCK. Read the next line.

Mr. WADE. Certainly. [Reading:]

Excluding bankers, brokers, bill discounters, or directors of other banks operating in the United Kingdom.

That has been the practice, but that is not the law. Now, then, financial houses are exactly the same as Morgan & Co., of New York, or Kuhn, Loeb & Co., of New York, the greatest banking houses in America, but we do not call them financial houses.

Senator HITCHCOCK. The law of 1844, under which the Bank of England is now operating, does provide a qualification; a member of the board must be a natural citizen.

Senator SHAFROTH. That is a general qualification, but we were talking of the actual practice of the Bank of England.

Senator NELSON. However that may be, that is not really material to our inquiry.

Mr. WADE. The same principle applies in France and in Germany. The stock is held by the people of the nation. The Bank of France has 40,000 stockholders.

The CHAIRMAN. Who appoints the directors there?

Mr. WADE. The directors are selected by the stockholders. In France the directors are named by the stockholders and the governor named by the President of the Republic. There are 3 men out of 18 named by the governor and 15 selected by the stockholders.

The CHAIRMAN. Who appoints the managers of the various branches of the Bank of France?

Mr. WADE. The governor.

The CHAIRMAN. What power have the regents?

Mr. WADE. Absolute power. We have it here in this report of the monetary commission.

The CHAIRMAN. You might read it into the record.

Mr. WADE. It is a long story and it would take some time for me to get it from the report.

Senator HITCHCOCK. I have a memorandum of the matter here: In the Bank of France there are 15 regents and 3 censors, who are elected by the 200 largest stockholders. They have control of the management of the bank, including the fixing of the interest rate. The President appoints the governor and the subgovernor.

Mr. WADE. The Bank of France is a private corporation with 40,000 shareholders. The governor and two deputy governors are named by the President of the Republic; 18 directors are elected by the shareholders; a majority vote controls the operation. That is on page 190 in this book.

Senator CRAWFORD. In all these banks—England, France, and Germany—the stock represents voluntary subscriptions?

Mr. WADE. Absolutely so.

Senator CRAWFORD. And in the first and second banks of the United States the subscription of stock was practically voluntary, was it not—in the old first and second banks here in our own country?

Mr. WADE. Well, I am not that old.

Senator CRAWFORD. That is true as a matter of fact?

Mr. WADE. That is true.

Senator CRAWFORD. Do you know of a case where they have ever made it a matter of coercion to furnish capital for a bank?

Mr. WADE. Gentlemen, I do not know where there is a law on the statute books of any enlightened nation—I do not know of any law in any State of this Nation where by the operation of law they say:

Separate from your money or we will destroy your business.

Senator POMERENE. They require you to keep a certain amount of reserves now.

Mr. WADE. That is right; but that is voluntary.

Senator POMERENE. That is prescribed by law.

Mr. WADE. That is true; but I knew the law when I entered into that system. That does not take my money away; it conserves it in my safe.

The CHAIRMAN. Mr. Forgan—pardon me, Senator Reed, have you finished?

Senator REED. I am more interested in the conditions here than I am in Europe, and I was going to inquire about them; but I will defer my questions, Mr. Chairman.

The CHAIRMAN. I merely wanted to call attention to page 190, to which Mr. Wade referred, with regard to the powers of the shareholders of the Bank of France. The statement is made that these shareholders meet on a Thursday in January of each year, when they are told about the business of the bank during the year and are called upon to elect and reelect the regents and censors. The three censors must be chosen from the industrial and commercial classes and the three regents must be chosen from the general paying shareholders. The regents meet once a week, and they decide upon the changes in the rate of discount, which is their most important duty, and that practically ends their management. The actual management is done by the managers, who are appointed by the Government. And the same thing is true of the Bank of Germany.

Mr. WADE. But if you will read on further, Mr. Chairman, you will find that the majority of the directors control. I did not want to go into that; but if you will continue, you will find that the majority of the directorate of the Bank of France control its entire action except in the election of the two governors and the two deputy governors and the managers of the branches.

The CHAIRMAN. But every one of the 188 branches has its manager, and every one of them is appointed by the Government. I do not see how the Government could go much further.

Senator REED. I was interested in your statement, Mr. Wade, that the State banks are, notwithstanding the prestige accompanying the name "National," able to rival the national banks; and the reason you gave was that the State laws were more advantageous—that is not your language, but I am trying to give merely its substance.

Mr. WADE. That is the essence of it.

Senator REED. Now, in what respect are the State laws more advantageous? Could you give it to us in a short, terse statement?

Mr. WADE. Let me first give you the advantages of the National banks over the State banks. First, they can issue circulating bank notes, which formerly could be done at a profit, but latterly—particularly in the year 1913—has been done at a very heavy loss, because of the depreciation of the 2 per cent, the 3 per cent, and the 4 per cent Government bonds. So, therefore, that is a privilege supposed to be an advantage which has developed into a detriment.

Second, it may act as reserve agent for other national banks for the reserve funds of other national banks. In a reserve city they can act as reserve agents for country banks, and in central reserve cities the banks can act as reserve agents for country banks and for reserve banks.

Strange as it may appear, that is not regarded as a great advantage, because the reserves of the country bank and of the reserve city bank are always at the lowest ebb when money is close and at the highest when money is cheap.

And secondly, because if a reserve bank or a country bank keeps its reserve in a reserve city or a central reserve city, it is almost an unwritten law that the reserve bank or the central reserve bank must loan it money whenever it needs it.

Senator NELSON. You mean loan its money to the depositing bank?

Mr. WADE. Loan its money to the depositing bank. In other words, the bank that will keep a deposit of $10,000 will ordinarily be entitled to a credit of $35,000 or $40,000, and so on, in that ratio.

The third supposed advantage the national bank has over the State bank is that it is the depositary for Government money. But again, in the year 1913, that has proven to be unprofitable, because for 50 years it was the custom of the Government to deposit money in the national banks without interest, but secured by the Government bonds. Many banks bought bonds and secured Government deposits. Many of them paid as high as 105, 106, and 107 for a 2 per cent bond, because it was profitable to do it—because they paid no interest on the deposits. But when the interest of 2 per cent was required and demanded of the national bank for the Government deposits the profit was eliminated; and when the bonds fell down below par the banks have charged, or should charge, to profit and loss account the amount of the depreciation.

Senator REED. Those are the advantages of the national banks?

Mr. WADE. Those are the advantages of the national banks. Aside from that, there is a certain imaginary glamour in being national banks. There is nothing in that except sentiment.

Senator REED. As I understand you, all these advantages have become disadvantages, except the glamour. Is that what you mean?

Mr. WADE. Practically all; and the glamour has no value.

Now, the advantages that the State banks have over national banks: They can do all the business that a national bank can do, except those three items recited. In addition to that, they can loan on real estate. In many States they can buy stocks and bonds. In many States they can act in a fiduciary capacity.

Senator REED. Yes; act in a fiduciary capacity.

Senator NELSON. And the reserve requirements are not as stringent?

Mr. WADE. And in many of the best States of the Union they have no requirement about reserve at all, except that which is relied upon in the intelligence of the manager of the bank.

The CHAIRMAN. And they do use national-bank notes as reserves, do they not, in some States?

Mr. WADE. They can use national-bank notes in reserve, which a national bank can not do. They can use any kind of money in

reserve, while a national bank is restricted to carrying its reserve in what is called "lawful money."

Senator NELSON. Gold, silver, and greenbacks.

Senator REED. Now, does that make up the advantages of the State banks?

Mr. WADE. No. In speaking about State banks, I never forget about the words "trust company."

Senator REED. Yes.

Mr. WADE. I always put them under the same category.

Senator REED. It is the same thing, only a different name?

Mr. WADE. They can act as trustees under a will, or as trustees under a mortgage.

Mr. WEXLER. And as executors of estates.

Senator HITCHCOCK. Administer estates?

Mr. WADE. Administer estates.

Mr. JOHNSTON. Mr. Wade, I would like to ask you is not the trust company in the banking world what the department store is in the mercantile world—they can do almost anything?

Mr. WADE. Well, you can not get married by them.

Senator REED. Well, does what you have recited embrace all the advantages?

Mr. WADE. I can illustrate this better by describing the institution which I preside over, and giving you the various departments.

Senator REED. Well, that is hardly necessary.

Senator NELSON. That would give us a better idea.

Senator REED. Then I should like to have it.

Mr. FORGAN. You can get an almost interminable franchise. I have one in the State of Illinois for 999 years.

Mr. WADE. We have a bond department, where we buy and sell all classes of bonds. We have a real estate department, wherein we buy and sell all kinds of real estate on commission—never speculated on it. We have a real estate loaning department, where we can loan on any piece of real estate anywhere in the habitable globe.

Senator NELSON. For any length of time?

Mr. WADE. For any length of time.

Senator WEEKS. Mr. Wade, before you leave that subject let me ask this: You do not loan funds on real estate that are subject to check, do you? You only loan deposits that are time deposits, do you not?

Mr. WADE. Why, we loan our money. We do not make any distinction whatever; not the slightest. We have a trust department, where we handle all sorts of estates. We have a corporation department, where we keep the records of all kinds of corporations who desire records kept. We have a safe deposit department. And all of those departments are profitable. We have a foreign-exchange department.

In other words, we can do in the trust company—which I am so anxious to get under this system—anything that the discount house of London can do. We can do anything that the joint-stock bank of London can do; we can do anything that the national bank of the United States of America can do (except the three items I have mentioned), and anything that the accepting houses of London can do.

Senator McLEAN. You have a savings department, have you?

Mr. WADE. We have a savings department, with forty-odd thousand depositors. And, lastly, we have a charter that runs for 50 years.

Mr. JOHNSTON. The charter of a trust company in Missouri permits also, if the officers desire to take it up, that they should have an insurance department, fire and life.

Senator SHAFROTH. Mr. Forgan made a startling statement just now, that he has a corporation that has a legal existence of 999 years—according to the laws of Illinois.

Mr. FORGAN. And which is protected by a constitutional requirement; and there is not a word in the banking law under which it was organized that can be changed so as to terminate it.

Senator REED. Mr. Chairman, I suggest that we will not get very far if we go on these side issues. If there is any other member of the committee who desires to question Mr. Wade now I will waive the privilege for the present.

The CHAIRMAN. The Senator from Missouri will proceed.

Senator WEEKS. Mr. Chairman, it is half past 5; the committee has been in session all day, and I think it would be well to adjourn at this time, although there are some matters I wanted to get Mr. Wade's views upon.

The CHAIRMAN. When would you be able to appear before the committee again, Mr. Wade?

Mr. WADE. I can be back here on Saturday.

The CHAIRMAN. Then the committee will be glad to have you explain further at that time about State banks and trust companies.

(Thereupon, at 5.30 o'clock p. m., the committee adjourned until to-morrow (Thursday) morning, at 10 o'clock.)

THURSDAY, SEPTEMBER 4, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, Crawford, McLean and Weeks.

Senator WEEKS. Mr. Chairman, I think I ought to say to the committee that I am going, at 11 o'clock, when the Senate convenes, to introduce a resolution instructing this committee to report on the bill which we have under consideration, the 2d of December next, at the convening of the regular session of Congress, and to make banking and currency legislation the unfinished business at that time. I assume that the committee will want to take a recess, as I am going to introduce the resolution at 11 o'clock.

Senator REED. I would like to ask the Senator if he could not let that go until to-morrow. I have made a positive engagement which compels me to leave here at 12 o'clock, and if this resolution comes up at 11 o'clock, I could not be there until the debate was over; because it will undoubtedly, if it is debated to-day, involve some delay.

Senator HITCHCOCK. It could hardly be debated to-day.

Senator WEEKS. Of course, if an objection is made, it can not be debated to-day.

Senator HITCHCOCK. I think that will naturally be the result.

Senator REED. I know it would; hence I ask the Senator for an extension of time.

Senator WEEKS. I would like to accommodate Senator Reed.

Senator REED. Well, the Senator can then just have it put in, and to-morrow we can take it up.

The CHAIRMAN. Will you give notice, then, to-day that you will introduce the resolution to-morrow?

Senator WEEKS. I will introduce it to-day and give notice that, under the rules, I assume it would come up for debate to-morrow.

Senator NELSON. It can not come up to-day unless you secure unanimous consent.

Senator WEEKS. I am perfectly willing to ask unanimous consent that it come up to-morrow.

Senator HITCHCOCK. You do not need to ask for unanimous consent. You can ask that it lie on the table and come up to-morrow.

The CHAIRMAN. Mr. Forgan, who is your next witness?

Mr. FORGAN. Mr. Wade is still here.

Mr. WADE. Yes; Mr. Chairman, I have concluded that I had better stay here than to come back on Saturday.

Senator REED. We are waiting for Mr. Wade to answer our questions, and Senator Hitchcock, I believe, has some questions he desires to ask now.

FURTHER STATEMENT OF FESTUS J. WADE, OF ST. LOUIS, MO.

Senator HITCHCOCK. Mr. Wade, you differ from your associate, Mr. Wexler, in that you favor the idea of having outside stockholders rather than having stockholders confined to the banks?

Mr. WADE. Yes and no. I think it would be all right to confine it to the banks if you did not make it a compulsory measure. As I said in my remarks yesterday, banks have not the slightest objection to taking the stock, provided they are not forced to do so. But if you are going to make it compulsory, then I would rather see it thrown open to the public.

Senator HITCHCOCK. Is that not a mere sentiment, the difference between being compulsory and voluntary?

Mr. WADE. No; it is anything but a sentiment. It is my deliberate judgment, Senator, and I have given this matter a great deal of consideration, that unless you change the provisions of that bill in that respect you will not get enough stock subscribed by the banks of this country to make the reserve banks a success.

Senator HITCHCOCK. Now you are not referring to the involuntary clause.

Mr. WADE. What is that, sir?

Senator HITCHCOCK. You are not confining yourself, now, to the question whether——

Mr. WADE (interposing). I am confining myself to the involuntary clause, because it is so inequitable, so undemocratic, so unjust, to demand that a bank shall subscribe to a doctrine or be forced out of business if it does not take stock, and if it subscribe to it that

it shall have nothing to say as to the control of the institution which it founds with its money.

Senator HITCHCOCK. Does it really make any difference whether they are required to do so or whether they do so voluntarily?

Mr. WADE. Why, I think it makes all the difference in the world. It is the difference of being forced to do anything in a country that is supposed to be free. It is repugnant to the manhood of the Nation.

Senator HITCHCOCK. Mr. Wade, under this bill as it stands now there is not a dollar of capital added to the banking capital of the United States.

Mr. WADE. No; admitted. There is $100,000,000 to the credit capital of the banks of the United States. You require us to take 10 per cent of the capital of our institution and separate our institution from that and take in lieu thereof certificates of stock in this reserve bank. You will increase the capitalization of the banks of the United States $100,000,000 or more by the operation of this bill.

Senator HITCHCOCK. But it is a duplication of capital?

Mr. WADE. True, it is a duplication—admitted.

Senator HITCHCOCK. Do you recognize that there has been a growing disparity between the capital of the banks of the United States and their liabilities represented by the deposits; that is, that the capital has been growing smaller and smaller, while the deposits and obligations to their depositors have been growing larger and larger?

Mr. WADE. I think, Senator, that probably you make the commonly accepted mistake, and that is that you look entirely at the national system, and you fail to look at the general system.

Senator HITCHCOCK. I think the disparity is still greater if you take in the State system.

Mr. WADE. I think not.

Senator HITCHCOCK. But confining ourselves to the national system, as the banks under that system are the only ones that would be under compulsion——

Mr. WADE. Yes, sir.

Senator HITCHCOCK (continuing). It is the fact that the margin of safety to the depositors has been growing smaller and smaller?

Mr. WADE. That depends upon what you mean by "safety."

Senator HITCHCOCK. Because the deposits have been increasing relatively to capital.

Mr. WADE. Well, it all depends on what you would call the "margin of safety." What would you term the "margin of safety"? Capital, money, assets, or what?

Senator HITCHCOCK. I should call the margin of safety the capital invested and the liability of the stockholders.

Mr. WADE. I can not clearly understand what you call the margin of safety. The margin of safety, in my judgment, in any bank, is in the wisdom and the judgment on which its money is loaned, so as to keep it liquid, and so that it can always be cashed.

Senator HITCHCOCK. Well, that is a matter that can not be provided by law. It is a sentiment too vague. But the specific and material thing that I am considering is the amount of money that the stockholders put into the business as compared to the volume of business that they do.

Mr. WADE. Oh, that is what you call the margin of safety, is it?

Senator HITCHCOCK. That is the margin of safety, in my opinion.

Mr. WADE. Well, that might have very little to do with it. You might have a bank—and I know of one, and administered on its obsequies—having a capital of $3,000,000 and a surplus of $1,000,000, and a deposit account of $6,500,000—and it was rotten.

Senator HITCHCOCK. Yes, I know, of course, that is quite possible with any concern.

Mr. WADE. And then, on the other hand, I know of hundreds of banks with a capital of $100,000 and deposits of $1,000,000, that are just as clean as one with a capital of $1,000,000 and deposits of $2,000,000.

Senator NELSON. Senator Hitchcock, I do not want to interrupt you, but I want to suggest that, in connection with this question, you ought to take into account, not only the capital, but the surplus of the bank, which is a part of the fund just as much as the original capital.

Senator HITCHCOCK. No, I do not. The purpose for which they are raising their surplus and keeping down their capital is to avoid the personal obligation of the stockholders. There is no personal obligation of the stockholders on account of the surplus.

Senator NELSON. But that is a part of the funds——

Senator HITCHCOCK (interposing). But there is no individual liability attached to it.

Senator REED. When you get the 20 per cent, there is no liability on the stock, is there?

The CHAIRMAN. There is a double liability.

Senator HITCHCOCK. For every share of stock there is a double liability behind the stock; but there is no individual liability behind the surplus; it is only a pile of money.

Mr. WADE. Senator, I think you have the wrong idea as to that; I am quite sure you have. Take the institution I preside over, which is a trust company. We have no double liability, but we have a capital of $3,000,000, and a surplus of $6,700,000. Certainly we do not have that surplus in order to avoid liability. The surplus of a bank is created primarily to give it strength, and to enable it to stand any tide that may come along.

Senator HITCHCOCK. Will you please explain why a surplus of $1,000,000 is any stronger for a bank than $1,000,000 of capital?

Mr. WADE. Of course, it is very simple. If I have a bank with $2,000,000 of capital, and no surplus, whether it be State or national, or a trust company—$2,000,000 capital, and no surplus, and I happen to lose $100,000, I am prohibited by law from continuing to do business until I make my capital good.

Senator HITCHCOCK. And your stockholders are required to do that?

Mr. WADE. Yes, sir. But if I have a bank, or a trust company, with a capital of $1,000,000 and a surplus of $2,000,000, and lose the whole $2,000,000 surplus, I could still continue to do business.

Senator HITCHCOCK. And your stockholders are not required to put up one cent?

Mr. WADE. No; my stockholders are not required to put up one cent.

Senator HITCHCOCK. That is exactly my idea.

Mr. WADE. But the stockholder has already put up that surplus.

Senator HITCHCOCK. Well, you have exactly set forth the point I raised, that there is no personal responsibility behind the surplus, but there is behind the capital.

Mr. WADE. No. The stockholders have no double liability in our State, whether it be a trust company or a bank.

Senator HITCHCOCK. I am talking about national banks.

Mr. WADE. I know; but there is where you gentlemen have lost sight of the most important factor of this whole proposition. You have seen the hole and not the doughnut. You have taken 36 per cent of the banking power of this Nation; the banking power that moves what is commonly known as the merchandise of the country, and the crops of the country; but you have failed to deal with those institutions that have built up this Nation through the operation of its real estate department, real estate loans, bond departments, with its ability to handle agricultural plants of all kinds, and to develop the whole manufacturing industry by the erection of manufactories and office buildings, and eelemosynary institutions—which national banks do not do.

Senator HITCHCOCK. Well, that is hardly in the line of my questions. I was proceeding to develop a certain line of thought. I wanted to ask whether you recognized the fact, in the first place, that, compared to the volume of liabilities, the capital of the national banks has been diminishing?

Mr. WADE. First let me say that I have not looked at the statistics in a way to carry that in my mind. But you must, if you take that into consideration, include the surplus.

Senator HITCHCOCK. Well, I am leaving the surplus aside for the present.

Mr. WADE. Well, but you must not do that, for that is capital, and you have to include the undivided profits.

Senator HITCHCOCK. Well, for the purposes of my question, I am leaving it aside, and I have to ask you whether you think, as a banker, there should be any relation between the capital and the amount of liabilities?

Mr. WADE. Well, yes; there should be; but I would not be prepared to lay down the rules for it. As a general proposition——

Senator HITCHCOCK (interposing). Now, I want to ask you——

Mr. WADE (interposing). Well, wait a minute. As a general proposition, I think when a bank's liabilities exceed its capital and surplus and undivided profits 10 to 1, it has about reached the limit.

Senator HITCHCOCK. Ten to one, you say?

Mr. WADE. Yes. That is a purely personal opinion, however, without very much consideration.

Senator HITCHCOCK. Now, the capital of the national banks is something like $800,000,000, is it not?

Mr. WADE. No; it is over $1,000,000,000 capital and about $800,000,000 surplus and undivided profits.

Senator HITCHCOCK. Over $1,000,000,000?

Mr. WADE. And you must add the surplus and undivided profits.

Senator HITCHCOCK. Well, I am confining myself to the capital. Do you consider that the withdrawal of over $100,000,000 from that $1,000,000,000 would tend to weaken the national banks of the United States?

Mr. WADE. No, sir; you would only in effect loan or invest about 5½ per cent of your capital, surplus, and undivided profits.

Senator HITCHCOCK. You think it would not?

Mr. WADE. No, sir.

Senator HITCHCOCK. Could you withdraw $200,000,000 without doing that?

Mr. WADE. Yes, sir; but I do not see the necessity of it.

Senator HITCHCOCK. You think it would not weaken them to withdraw that amount?

Mr. WADE. No.

Senator HITCHCOCK. Can you withdraw $300,000,000 without weakening the national banks?

Mr. WADE. If you withdrew it and kept it where it could be borrowed again, it would not.

Senator HITCHCOCK. Then, do you think that the national banks could reduce their capital without weakening themselves, as would appear from your statement?

Mr. WADE. No.

Senator HITCHCOCK. Well, where would you draw the line?

Mr. WADE. I do not know just where I would draw the line on that. I do not understand the theory of your questions. Probably if I did I could answer them.

Senator HITCHCOCK. My theory is that in so far as this bill provides for the withdrawal of a large per cent of the independent banks of the United States it weakens them and injures the system?

Mr. WADE. No, sir; it does not.

Senator HITCHCOCK. Well, that is my line of reasoning.

Mr. WADE. So I understand; but your line of reasoning is erroneous.

Senator HITCHCOCK. Well, now I want to ask you this: Is it not a fact that the banking institutions of Europe proceed upon the theory that the liability of the stockholders is an important consideration for a depositor?

Mr. WADE. No; I do not think that is a fact.

Senator HITCHCOCK. Is it not a fact that all the large banks of Europe have a capital on which the stockholders have only paid in a per cent of cash, and that they have a large liability, much more than twice as much as they have paid in?

Mr. WADE. In some instances that is the case, and sometimes it is not.

Senator HITCHCOCK. Is it not the general rule as to a great many of the incorporated banks of Great Britain and France?

Mr. WADE. Sometimes that is the case; but I think you are in error.

Senator HITCHCOCK. That a large majority of the capital paid in, with a large majority of the stockholders' dues to the bank are held for that purpose?

Mr. WADE. Oh, yes; that is the theory. It is like your present national banking system. If I were a stockholder in a British bank, or a national bank in this country, and I had any reason to think that it would fail, I would sell the stock to-morrow, and my liability would cease.

Senator HITCHCOCK. No, it would not.

Mr. WADE. Why?

Senator HITCHCOCK. Because there is a period of time——

Mr. WADE. Well, what is the period of time?

Senator HITCHCOCK. It varies in different countries.

Mr. WADE. I mean in this country now.

Senator HITCHCOCK. Well, in this bill, I believe it is to be made six months.

Mr. WADE. Yes; but I am talking of the law, as it is to-day. It is one of those fictitious——

Senator POMERENE (interposing). Let me understand you, please; do you mean that in this country, by transferring your stock to another person you can avoid liability during the time you were a stockholder?

Mr. WADE. Absolutely, if I sell it in good faith.

Senator HOLLIS. Oh, no.

Senator WEEKS. Then, the man who bought the stock takes the liability?

Senator REED. The provision of the statute is that the man who purchases the stock—I am not giving the exact language, but the same substance—takes it with all of its liabilities.

Senator POMERENE. Primarily that is true.

Senator REED. And there is no provision in the statutes that I have seen—I may have overlooked it—that provides any holder of bank stock shall be liable for the debts which were accrued at the time he held it; and which continues that liability after he has purchased the stock. If there is such a provision in the statutes, I have not seen it.

Senator POMERENE. Primarily, he is liable for those debts if the purchaser should be exhausted without the creditors being able to enforce the full stock liability. You can then go back on the original purchaser.

Mr. WADE. I think you are in error there, Senator.

Senator POMERENE. I am not in error. I have gone over that proposition in Ohio, and I know whereof I speak on that subject.

Senator REED. Do you mean, Senator Pomerene, that if I own bank stock to-day and the bank has debts, and I transfer that stock in good faith—I am not talking about a fraudulent transfer; but I transfer it in good faith—but after I transfer it, I can still be held to a double liability? I do not think that is the law. Now, I grant you——

Senator POMERENE (interposing). You can be held, Senator Reed, for those liabilities which were incurred during the time you were a stockholder, provided the amount of the stock can not be realized out of the man to whom you sell it.

Senator REED. You say that the decisions of the courts are to that effect? I have not seen those decisions.

Mr. WEXLER. Senator, that is a mistake.

Senator POMERENE. Well, I have gone through that in Ohio, and I know what I am talking about.

Mr. WEXLER. It is purely a question of good faith. If you can show, upon examination, that the transfer of the stock was made by the party with knowledge of the failing condition of the bank, and it was a subterfuge to avoid liability, you are entirely correct; but if the transfer was made in good faith, for valuable consideration, in the

ordinary course of business, you can not recover from the seller of the stock.

Senator POMERENE. If your position is correct, the double liability means nothing, and the man who has knowledge of the bank's failing condition can get rid of his stock by selling it to a mere dummy, and thereby escape liability.

Mr. WADE. That is not what I contend. I say if he sells the stock in good faith, the buyer and not the seller assumes the liability.

Senator REED. I have not examined the statutes, but I think the rule is this, that if a man owns stock in a bank and transfers it in good faith, his liability ends when the transfer is made, and the liability of the purchaser for all the debts of the bank, to the extent of the amount of his stock, immediately attaches.

But, of course, if a man, in order to avoid that liability, is guilty of fraud—that is to say, if his transfer is a mere subterfuge—he would not them escape, because fraud vitiates every kind of transaction.

Now, that is the line, I think, that obtains, although I have never examined it. If the Senator from Ohio has examined it, I should take his exposition until I found something to the contrary.

Senator POMERENE. I will say that that has been the holding of the Ohio courts right along. I do not now have in mind any Federal decisions on the subject. I do not have in mind now that there is any distinction between the two. The national banking law was framed after the free banking act of Ohio. It was originally drafted by Secretary of the Treasury Salmon P. Chase.

Senator HITCHCOCK. Mr. Wade, can you conceive of a division of the functions provided for in this bill—possibly a division of the functions provided for in this bill? This bill provides, in a way, for the mobilization of the reserves of the country, and for discounting paper. It also provides for the issuance of additional currency. Do you think that those are necessarily, or should be necessarily, united?

Mr. WADE. Would you kindly repeat that question, Senator?

Senator HITCHCOCK. The bill provides substantially for two proceedings, the issuance of additional currency, either by the banks or by the Treasury, and it also provides for the mobilization of the reserves of the banks and for transacting business. What would be your opinion of the advisability of dividing these functions, by having the Treasury issue the additional currency and allowing the banking business of the country to continue very much as it is at the present time?

Mr. WADE. They could be divided, and it could be operated; but it——

Senator HITCHCOCK (interposing). But what is the country most in need of at the present time, additional currency or mobilization of the reserves?

Mr. WADE. Just a minute, sir; let me answer, please. It could be divided, but it would be a fatal economic mistake to let the Government issue the currency as governmental currency. We can not get away from that and be truthful and honest men in appearing before this committee. We must tell you that that is our unalterable judgment on the proposition.

Senator HITCHCOCK. Will you please state why it would be a fatal mistake for the Government to issue the currency?

Mr. WADE. Simply because it puts the Government in debt just that much more than is necessary. If these banks that you are going to organize, called reserve banks—whether there be 1 or 10 or 50—are going to be solid institutions, are going to be properly managed by the Government board of control; are going to be properly supervised by the Comptroller of the Currency; and if you are going to carry a proper gold reserve against them, you need no Government guaranty of its notes; and therefore we come to you, not as bankers but as citizens in that respect, and state:

Do not assume an obligation for the Government, when there is absolutely no necessity of doing so.

Senator HITCHCOCK. Well, is it concern for the welfare of the Government that influences you?

Mr. WADE. Absolutely so. Why, Senator, if you would stop to consider for a moment, you must realize that every banker wants on every note all the collateral and all the indorsements and all the security he can get as a strictly selfish, narrow, proposition. And we come to you absolutely in a patriotic way, and say to you:

Do not put the credit of the Government behind these notes, because, first, it is entirely unnecessary, and, secondly, it may hurt and injure the future of the Republic.

Senator HITCHCOCK. Well, the larger part of the currency of the United States is already Government paper.

Mr. WADE. Oh, no; a good substantial sum of it is; yes.

Senator HITCHCOCK. Let me interrogate you here: We have $346,000,000 of notes?

Mr. WADE. Yes; but you have $150,000,000 gold as a reserve to protect them.

Senator HITCHCOCK. And nearly $1,000,000,000 of gold certificates?

Mr. WADE. Those are only warehouse receipts.

Senator HITCHCOCK. Well, it is Government paper?

Mr. WADE. No.

Senator HITCHCOCK. It is not banking paper?

Mr. WADE. It is not bank notes; no.

Senator HITCHCOCK. No; it is Government paper; it has the certificate of the United States that gold is on deposit in the Treasury?

Mr. WADE. Well, my dear sir, if you will put gold behind these notes, you do not need any Government behind them.

Senator HITCHCOCK. Well, there is no question that a gold certificate is a statement of the United States that gold is deposited in the Treasury.

Mr. WADE. It is purely a warehouse receipt; but we will admit it for the sake of argument.

Senator HITCHCOCK. We have already arrived at the point where the larger part of the currency of the United States is Government paper and not banking paper. We only have $700,000,000 of banking currency outstanding. So that we have already passed the point you have described of having the Government issue currency. We differ from all the countries of the world in that respect.

Mr. WADE. Yes. But if we have made a mistake—not a mistake—one of the most brilliant achievements of statesmanship, the creation of the national banking system and issuing of national banking notes

to bolster up the credit of this Nation in its hour of distress. But when we have issued a fictitious currency, putting one note based on the credit of a Government bond bearing a fictitious rate of interest; and when the reason of its existence is no longer necessary and when the Nation has power to get along without it, why, when we tell you, with just as much patriotism as any man can have, that it is a mistake to do it, do you want to insist, and to persist in continuing to do it?

Senator HITCHCOCK. Let me ask you another question. Suppose the banks were given the power to issue these notes, what volume of them would be issued?

Mr. WADE. The volume that would be absolutely controlled by the needs of commerce.

Senator HITCHCOCK. Will you please make an estimate of the amount?

Mr. WADE. It is impossible to make an estimate. First, Senator, let me tell you that there is every dollar of currency in existence in this Nation to-day that is necessary for the conduct of its business.

Senator HITCHCOCK. You would not be in favor of having any limit at all?

Mr. WADE. Absolutely no limit.

Senator HITCHCOCK. Well, suppose for the sake of argument, we place the limit at $750,000,000, that would be actually issued, temporarily issued, at different times. Suppose, instead of having the banks issue that currency, the Government undertook to provide United States notes, similar in all respects to the notes now outstanding?

Mr. WADE. Greenbacks?

Senator HITCHCOCK. Greenbacks; legal tender for all debts, public and private, good for bank reserves, primary money of the country.

Mr. WADE. Yes, sir.

Senator HITCHCOCK. Suppose, against that, it issued bonds that might be necessary to provide the reserve of 33, 40, or 50 per cent—the bonds only to be issued when necessary to provide the reserve. Suppose, then, those notes of the Government, from time to time, were loaned out to the banks upon the deposit of adequate security in, say, 50 subtreasuries of the United States all over the country. The banks paying interest on those notes would provide a fund far more than would be necessary to pay the interest on the bonds already outstanding. We would then add to the actual money of the country—legal tender money, bank reserve money—whatever was taken out by the banks from time to time. Instead of adding a volume of credit to the currency of the country, we would add primary money, equal to gold money.

Mr. WADE. Your question is too long. I could not answer it that way. I suggest you separate it, as you have several separate propositions in your question.

Senator HITCHCOCK. I will take it up separately, if you prefer.

Mr. WADE. I think you confuse six or seven different propositions.

Senator HITCHCOCK. Would it be as difficult for the Government of the United States to provide a certain reserve against note issues as it would for the banks to do it?

Mr. WADE. As safe for the holders of the notes?

Senator HITCHCOCK. Would the notes be just as good with the United States behind them, with a 40 per cent reserve behind them,

as they would be with the banks behind them with a 40 per cent reserve?

Mr. WADE. Unquestionably.

Senator HITCHCOCK. So that if we had a possible issue of $700,000,000 of notes we would have a possible issue of $280,000,000 in bonds?

Mr. WADE. Yes; but if you call bonds adequate security for those notes——

Senator HITCHCOCK (interposing). No; I am not talking about them as security at all.

Mr. WADE. Why are you talking about the bonds, then?

Senator HITCHCOCK. We sell the bonds to secure the gold, and the gold is in the Treasury as the reserve of the notes.

Mr. WADE. Well, of course, if you are going to put the Nation in debt and fictitiously create a reserve, then you and I on that proposition must part company, because there is no necessity of selling the bonds.

Senator HITCHCOCK. The Government would be paying interest on $280,000,000 of bonds and receiving interest on possibly $750,000,000.

Mr. WADE. I do not care if they were receiving an interest on $750,000,000 or $11,000,000. Why put the Nation in debt? Why create an obligation which is totally unnecessary upon the Government?

Senator HITCHCOCK. Let me ask you another question: Would it be desirable to do this—is there any more to be gained by having money for redemption, legal-tender money, over merely credit money?

Mr. WADE. I do not know how you differentiate?

Senator HITCHCOCK. Let me ask you this: You propose, and this bill proposes, for credit money?

Mr. WADE. Yes, sir.

Senator HITCHCOCK. It is not legal tender?

Mr. WADE. No.

Senator HITCHCOCK. It is not reserve?

Mr. WADE. No.

Senator HITCHCOCK. It is a debased money?

Mr. WADE. No.

Senator HITCHCOCK. It is not equal to gold certificates?

Mr. WADE. No.

Senator HITCHCOCK. It is not equal to the present notes of the United States?

Mr. WADE. It is not debased.

Senator HITCHCOCK. Anything is debased which is inferior.

Mr. WADE. No.

Senator HITCHCOCK. Banks can not take it in their reserves?

Mr. WADE. No.

Senator HITCHCOCK. You could not tender it in payment for a debt——

Mr. WADE (interposing). Just a minute, please. National banks can not take it in reserve. State banks can; but the national bank that gets those notes can go to the reserve banks and get real money for it, in the form of gold.

Senator HITCHCOCK. Why have this distinction between money in circulation and money in value?

Mr. WADE. What is that, sir?

Senator HITCHCOCK. Let me put it this way: Do you conceive that there is no limit to the amount of credit money which you can inject into the currency of the country without injury?

Mr. WADE. No; I do not conceive any such thing.

Senator HITCHCOCK. Well, you have said that you desired to have no limit made at all upon the volume of these notes which the banks shall be allowed to issue?

Mr. WADE. Yes. But will you stop there and let me qualify that, or let me explain what I mean when I say that?

Senator HITCHCOCK. Yes.

Mr. WADE. In the first place, we recommend that against every note issued there shall be at least 40 per cent of a gold reserve for every $100 issued.

Secondly, as additional security, there will be 100 per cent of commercial paper, indorsed by a solvent bank supervised by the Government, behind each note issued, which commercial paper shall not run longer than 90 days.

Thirdly, we recommend that there be provision made for the constant redemption of those notes, so that the minute there is no longer any necessity for their existence, automatically they will retire.

I think, Senator, that where you make a mistake is this, that you probably may be theorizing that the banker, after this bill would go into effect, could step across the street and say: "Give me $100,000, or $1,000,000," according to the size of his bank, and could get it and make money out of it.

Let us see what the operation would be. He would first have to go over there and take his bills receivable out of his portfolio that would be bearing the substantial rate of interest, with 4 per cent as a minimum. If the manager of the reserve bank thought the paper was good, he would let him have it, and the reserve bank would get the interest instead of the individual bank, and the banker would get currency for it or bank notes for it in exchange. Therefore, until he used those bank notes he would constantly lose money on them, and, consequently, he would not go and take his bills receivable and give them to the man across the street in the reserve bank unless there was a necessity for it.

Now, the check against what you have in mind and what you fear is that the moment the manager of the reserve bank found his reserve was getting too low for the number of notes that were going out he would raise his rate of discount until he got it so high that it would make it impossible for the bank to borrow money, and in that way he would automatically shut it off. That is what is done in England. The bank rate that you all hear about and you fear so much going up is only a standard. The banks of the British Empire, or the British nation, do not follow the Bank of England. Frequently you can borrow money at less than the Bank of England rates, and frequently you have to pay more for it.

Senator HITCHCOCK. Let me stop you there. It is a pretty well known fact, however, that either in France, in Germany, or in England, when the note-issuing bank fixes a rate the other banks, although they may be fully as large and having larger deposits, are very quick to take a hint from the note-issuing bank when they are lending money at a lower rate. I think that is generally con-

ceded. The issuing bank always has that power over the other banks, that they will come up to the rate of the note-issuing bank, because at times they have to go to the note-issuing bank to rediscount. And that is one of the powers that Senator Reed and I think a little dangerous in this country. It tends to centralization and tends to destroy; but I think possibly I am encroaching upon the subjects of the other gentlemen of your committee.

Mr. WADE. I am glad to explain whatever I can, although I want to confine myself to the one subject.

Senator HITCHCOCK. I will ask you one other question: You are not only a State banker, but a national banker?

Mr. WADE. Yes, sir.

Senator HITCHCOCK. Suppose you come down to your national banks and find that you have $500,000 to pay out on a certain date, and you have available for that purpose $500,000 of bank notes, and you also have available for the purpose $500,000 of gold certificates, which would you pay out?

Mr. WADE. Bank notes.

Senator HITCHCOCK. So that you do make a distinction between the value of the different kinds of paper?

Mr. WADE. Surely.

Senator HITCHCOCK. You know that your gold certificates and your Treasury notes and United States notes are more valuable than the bank notes?

Mr. WADE. No; wait a minute. Not now, because they pass current. But there is only one kind of money that is good under all conditions and of every kind, and that is gold.

Senator HITCHCOCK. Well, you know very well that the banks in this country—national banks—which carry $900,000,000 in their vaults now as reserve, only count gold and gold certificates and United States notes, and therefore there is a high value placed on that class of paper?

Mr. WADE. By law.

Senator HITCHCOCK. And yet you want to inject into the currency $500,000,000 or $1,000,000,000 of inferior currency, that can not be used for the purposes required by the national banks as a basis of credit, and can only be put out upon the people of the country?

Mr. WADE. That, Senator, is your theory and not mine. Already there is a law in existence that would permit the issuance of $500,000,000 of the currency which you describe. It has been in existence for four or five years, and not a dollar touched.

Senator HITCHCOCK. Yes; but this bill provides for the use of currency which has no higher value. These notes to be issued are not legal tender. They are not good for bank reserves.

Mr. WADE. Neither are the——

Senator HITCHCOCK (interposing). And the notes you propose are of the same character as this $500,000,000 which you have stored up?

Mr. WADE. No; that is not so.

Senator HITCHCOCK. And, in conclusion, you think, then, that no care should be taken to protect the banking capital of the United States? You think it would be proper to encroach upon it by withdrawing from the independent banks a large portion of——

Mr. WADE (interposing). That is your theory, Senator. I do not think that way at all.

Senator HITCHCOCK. My theory is that it is one of the dangerous features of this bill. One of the dangerous features of your proposition is that you propose to take away from the independent banks a large proportion of the capital they use in business, to take it away from their control, when already their capital is inadequate, and they should be required to enlarge it.

Mr. WADE. Well, it is just because I think that your mind has been devoted to the upbuilding of the country more than it has specifically to the upbuilding of banking. If your mind had been devoted, as mine has, along that channel, we might think alike. You will not admit surplus; you will not admit undivided profits. I must, from my experience. I may be wrong, but I do not think so. You take into consideration only the national system. I point out to you the other systems, and they, as a whole, take care of the situation pretty well.

I have not the slightest fear of any inflation from this note issue. If I had, I would be violently opposed to it. I have not the slightest fear that it will hurt the banks or the Nation one iota. To put up 10 per cent of their capital to create a great bank or system of banks—not the slightest. I have a fear that they will not make as much money out of the investment of stock as they would if they handled it in the ordinary avenues of business, by the limitation you put upon it. Otherwise I have no fear; and I am quite certain it will pay 5 or 6 per cent.

Senator REED. Mr. Chairman——

The CHAIRMAN. Just one moment, Senator Reed. Mr. Wade, obviously the suggestion is made that the amounts invested or proposed to be invested by the member banks in capital stock of the Federal reserve banks would diminish their present outstanding capital. Would you understand it so?

Mr. WADE. Well, it would not diminish the capital in the sense of the paper capital. It would diminish the loanable funds of each banking institution to that extent only. It would not diminish the capital.

The CHAIRMAN. Would it not in reality transfer a certain amount of bills receivable into Federal bank stock?

Mr. WADE. A certain proportion only.

The CHAIRMAN. Substantially it would be a transfer of credits from one form to the other, would it not?

Mr. WADE. Yes, sir; absolutely.

Mr. HITCHCOCK. Let me ask a question, before you pass that. Where would the bank secure this money? Would it secure it by calling the notes?

Mr. WADE. It could secure it in two ways: By taking money out of its vaults or drawing upon its extra reserve with other banks or by selling its paper to these reserve banks. The banks must deal with the reserve bank and sell to it a part of their portfolio.

Mr. FORGAN. Mr. Chairman, could I put a word in at this point?

The CHAIRMAN. Certainly, Mr. Forgan.

Mr. FORGAN. I think I can clear this up in a word. The investment of the national banks in the stock of the Federal reserve banks would be small, an ordinary daily transaction of loaning 10 per cent of their money—of their resources, rather—not loaning, but invest-

ing 10 per cent of their available resources; 10 per cent of their capital which they are now permitted by law to do to any individual who comes in—and which they are doing all the time.

Take, for instance, my own bank——

Senator REED (interposing). You mean an amount equal to 10 per cent?

Mr. FORGAN. Yes; an amount equal to 10 per cent of the capital. Take my own bank; we have $10,000,000 of capital; our subscription to the Federal reserve bank would be $1,000,000. Well, it is not an unprecedented thing for a man to appear at my counter or at my desk and tell me he wants to borrow $1,000,000, and it is not an unusual thing for me to say "All right, make your note," and I lend him the $1,000,000. It is an ordinary transaction. It does not encroach on my capital. It does not interfere with my capital. It simply is an investment of $1,000,000 in a specific line of investment, and in this case it would be in the stock of the Federal reserve bank.

Senator HOLLIS. Mr. Forgan, may I ask you a question? What assets have you available from which you can loan that $1,000,000 or buy $1,000,000 of bonds or other securities? You must have a great many millions. You are not confined to your capital or surplus. Tell us what your resources are.

Mr. FORGAN. Do you mean what they consist of?

Senator HOLLIS. Not what they consist of, but how much they are.

Mr. FORGAN. Our total resources?

Senator HOLLIS. Yes.

Mr. FORGAN. Somewhere about $125,000,000.

Senator HOLLIS. Then that $1,000,000, in the case that you spoke of, would be one one-hundred-and-twenty-fifth of your funds available?

Mr. FORGAN. Of our resources; yes, sir.

Senator REED. Mr. Chairman, I have to leave in a moment. Mr. Wade is from my own State, and I desire to ask him some questions.

The CHAIRMAN. You may proceed, Senator Reed.

Senator REED. I want to lay aside this bill entirely, Mr. Wade. I want to lay aside the national banking act entirely, except that we have got a condition here of banks now, State and National.

I wish you would tell the committee what, in your judgment, would be a proper scheme of banking for the Government to install.

Mr. WADE. Is that all you want me to tell you? [Laughter.]

Senator REED. Well, I think that is not a very long or hard question to put to a banker. If you would ask me as a lawyer what kind of a scheme of law, omitting the details, we ought to adopt, I could answer.

Mr. WADE. Well, I could do the same thing, Senator, if I had your ability. But for me I would not presume to do so.

Senator REED. Well, I do not think we need to pay each other any compliments.

Mr. WADE. But I would not presume to attempt to tell this committee, or the people of the United States, what kind of a bill should be drafted to meet the needs of the country, because that would be very presumptuous for me to do so.

Senator REED. Mr. Wade, that is just what we are trying to do at this time; and so far as I am concerned I do not care anything about this bill any more than if it never had been written. When I get through listening to what I can listen to I will do the best I can

to make up my mind as to whether it is a good bill or a bad bill or whether it needs to be changed or not; and I think that is very much the attitude of this committee. That is, we have got a bill here, and it comes from the House of Representatives, and there is some presumption that it is a wise bill because it does so come.

But I do not believe that the committee are limiting themselves to just what is in this bill, or even to this scheme. Now, you gentlemen who have studied banking all your lives must have an idea as to what you would regard as an ideal banking system for the country, and if I could get your ideas on this whole question I should like to do so.

Mr. WADE. Let me express these views as my personal views, and in no sense as a member of this commission.

Senator REED. Well, I would rather have your personal views than as a member of the commission, anyhow.

Mr. WADE. Then, the first thing I would do under those conditions would be to continue your work of creating this reserve bank. Personally, I would have a central reserve bank with branches. But, recognizing that is politically impossible——

Senator REED (interposing). No; let us just leave the political questions out of it.

Mr. WADE. I can not, because it is a fact.

Senator REED. I want to get Mr. Wade's viewpoint, I want to state to the committee, as to what would be the proper thing to do; and then I think I can form some opinion as to his other views.

Senator HITCHCOCK. Yes; just as if he were preparing a banking scheme himself.

Senator NELSON. Without regard to politics.

Senator HITCHCOCK. That is, from the standpoint of the public.

Mr. WADE. From the standpoint of a citizen of the country and not the banker.

First. A central bank with branches in the principal centers of the country.

Second. A note issue entirely issued by that bank and under the absolute control of the Government by your Federal board of control, with representation of the bank upon that board of control. These notes to be issued not to be the obligation of the Government, but the obligation of the bank.

Senator NELSON. To be redeemable in gold?

Mr. WADE. To be redeemable in gold and under a requirement that for every note issued a gold reserve of 50 per cent be maintained against it, with the power vested in the central reserve board to increase or diminish temporarily that reserve in times of great financial distress, and that no note ever be issued except upon prime commercial paper of the commercial establishments of the Nation for 100 cents for every dollar issued, in addition to the 50 per cent gold reserve of the bank.

I would then provide that the national banks, the State banks, and the trust companies all be permitted to do business with such bank, provided they became members of the central organization and provided they went under stringent governmental examination, supervision, and control. I would require the State bank, and the trust company, and the national bank, when they secured a note from the central bank to put up the same general class of paper.

Senator REED. Will the stenographer read that last statement of Mr. Wade's?

(Here the stenographer read the last preceding statement of Mr. Wade, as follows:)

I would then provide that the national banks, the State banks, and the trust companies all be permitted to do business in this bank, provided they became members of the central organization and provided they went under stringent governmental examination, supervision, and control. I would require the State bank, and the trust company, and the national bank when they secured a note from the central bank to put up the same general class of paper.

Mr. WADE. I would immediately proceed to refund the bond-secured currency of this Nation, by the retirement of all the bonds securing currency.

Then, to relieve the commerce of the Nation of the great fixed charge upon it, I would require the central bank and its branches to collect what we call in the banking business "transit" items or checks.

Senator REED. Not checks?

Mr. WADE. Transit items are checks or drafts drawn on different banks throughout the United States, at cost to the central bank, without any cost to the member banks. I would not expect the country banks or the collecting banks that collected these items to do it for nothing. I would expect to compensate them the same as they are to-day.

I would deposit all the money of the Nation—of the Government, except till money—in the central reserve bank, and I would require the central reserve bank to act as fiscal and financial agent of the Government under supervision and control of the Government, to finance it in times of distress and necessity.

Senator REED. Had you concluded, Mr. Wade?

Mr. WADE. If these suggestions were adopted into law, I believe (and it is my personal opinion that I am always expressing) that you would create a homogeneous banking system that would bring in, in my judgment, 15,000 or more banks into the general system, under general supervision, and controlled under the examination of a general department, and then have the greatest banking system on the inhabitable globe.

I would permit that bank to buy and sell foreign bills of exchange in order that its gold reserve might be at all times protected.

I would authorize it to make a rate of interest—a general rate of interest, a standard rate of interest, for the whole country each time the rate was made, and to be published weekly and changed at the will of the Federal board of control. Confine absolutely the business of such bank in its dealings with the Government and the National and State banks and trust companies.

Inasmuch as the central-bank idea can not, in my judgment, become a law under existing political conditions, then I would build a structure on the order of your reserve banks, but instead of attempting to try not less than 12, I would confine it as a maximum to 5, and it is so much easier to accomplish the desired results by attempting to create 5 reserve banks than it would be more than that.

Then, after practical experience, if it was demonstrated that more than 5 was beneficial to the Nation, then I would recommend that the laws be changed and the system be extended.

Senator HOLLIS. Would it interrupt you if I asked you a question?

Mr. WADE. No, indeed.

Senator HOLLIS. Why do you select arbitrarily the number five?

Mr. WADE. Because that is the greatest number that I hope you gentlemen will be induced to go to.

Senator REED. You mean that you hope we will not establish more than five banks?

Mr. WADE. That you will not establish more than five banks.

Senator REED. And you would like to see us only establish one?

Mr. WADE. Yes, sir.

Senator REED. Now we have got it.

Mr. WADE. Then, the reason for that is this: If you had all of the surplus reserve money of this Nation under one general control, as it was aptly put yesterday, when a draft was made upon it, the reserve would be attacked only in one place, but as you divide your strength into parts, the greater the division the weaker the institution, because men are the same the world over, and the reserve bank of California is going to try to outdo the reserve bank of New York or of St. Louis or Chicago or New Orleans or wherever they may be located.

Then I would not, under any circumstances, put in a clause giving a Federal reserve board the mandatory right to force the bank of California to discount for the bank of New York, or vice versa. I would leave that to the judgment and the experience and the ability of the men on the board of control of each of those different banks. There would be no object on the part of the bank of California in keeping money idle if it could loan it to New York, or vice versa.

There never has been a time, gentlemen, when the legitimate borrower could not get all the money he needed for his legitimate business in this Nation, if his borrowing were in accordance with the credit that he had to offer.

Senator REED. Mr. Wade, you have answered my question and are now going beyond it. Your statements are very interesting. Having asked that question, I wanted to ask you about one or two other things. You stated yesterday that the committee had overlooked or, at least, that the fact was being overlooked, that the notes and securities taken by your trust company and other similar institutions were, in fact, more liquid than the notes or securities taken by national banks, and, since you are here as the special representative of State banks and trust companies, I wish you would make that statement a little more detailed.

Mr. WADE. You, I think, Senator, misunderstood the purport of my remarks. They were about as follows: I will try to repeat them.

Senator REED. I do not care if you said it; if it did not express your opinion, I want to get your statement now. I am not trying to tangle the witness. I am trying to elucidate a fact.

Mr. WADE. I simply think you misunderstood me, and I believe I can explain why it would be natural that you would misunderstand. I said that in our institution, as we loaned money on real estate from Maine to California, and under our system, that our real estate notes were as liquid to us as the average commercial paper in the average national bank.

Senator REED. Now, why?

Mr. WADE. Because we have a little different system from any other institution in the United States.

Senator REED. How do you make them liquid? is what I want to get at.

Mr. WADE. I am going to explain that to you. When we make a loan on real estate, we make notes in units of $500 regardless of what the loan may be—$5,000 or $500,000. It is divided up into units of $500. Those notes, through a system that we have built up, can be disposed of as readily as we can make the loans, not only in times of redundancy but even times of a panic.

Senator REED. Will you tell me how?

Mr. WADE. I am going to. We take them, and we advertise those notes throughout the United States, and we deal with the masses of the people. The average sale of notes that we make would not exceed $1,000, and the great bulk of them are $500 notes, and the masses of the people buy those notes. We never sell anything to an insurance company; we never sell anything to Wall Street in New York or to Chicago banks or trust companies. We retail them directly to the people, and when money becomes tight we then offer our higher interest rate of notes for sale, and when money is redundant we offer the lower rate.

Senator HITCHCOCK. Do you indorse them?

Mr. WADE. No, sir; we never indorse a guaranty note.

Let me give you a practical illustration. Money was quite close all of the last six months. We found that our usual sales were not continuing. We had been advertising 5 per cent paper. We then advertised our 6 per cent paper, and we doubled and trebled our sales on a tight money market. During the panicky condition, a condition when fear runs throughout the land, the small depositor draws his money, and then his mind, if it is properly prepared by the usual advertisement, is directed into the purchase of these notes, and he buys them.

Senator REED. In a word, Mr. Wade, the way you operate is this: I have $1,000 and I would like to invest in a note. You have established the reputation and credit as a safe investment that the loans that you make on real estate are safe. I have got the faith credit of your institution, although you do not actually indorse, and the benefit of your examinations of titles and of values, and I simply go down to you and buy two of these $500 notes and put them in my pocket. I feel secure, because I have got real estate back of me. That is the situation?

Mr. WADE. Yes.

Senator REED. And you make these notes liquid by putting them upon the market and selling them to people, and you say that even in panicky times people will invest in that kind of security in preference to taking their money home and putting it in stockings or in bedtickings?

Mr. WADE. Yes.

Senator REED. That leads me to a question, because of this thought: Why is it that real estate securities, which are generally regarded as the most staple in the world, when properly made, can not be used by national banks, and what reason is there for any restriction upon the rights of the national bank to loan its money upon real estate security if it wants to?

Mr. WADE. The national bank was primarily organized and is still recognized as being purely a commercial bank.

Senator REED. I will now have to leave the room for just a moment.

Senator NELSON. During your absence I would like to ask a question.

Senator REED. If you ask a question I would like to hear it.

Senator NELSON. I will just state the question and Mr. Wade can be deliberating upon it until you return, and then he may answer it. Mr. Wade, you say national banks were primarily organized for commercial purposes. Do you not think they have deviated from that course in investing a lot of their money on call loans or stock collaterals, and that is not commercial business, or stock exchange loans, I might call it?

(Senator Reed here left the room.)

Senator HOLLIS. Would your banking laws permit you to indorse these notes that you sell to the mass of the people?

Mr. WADE. Yes, sir.

Senator HOLLIS. Your laws permit you to do most anything you want. Is it left to your discretion?

Mr. WADE. The national banks are permitted to indorse notes they sell.

Senator HOLLIS. The notes that you sell?

Mr. WADE. Yes—no; not real estate notes.

Mr. WEXLER. I think that Mr. Wade's institution stands in rather a peculiar position in regard to real estate loans and differs materially from the great number of trust companies throughout the country, in this fact, that a large portion of the loans of Mr. Wade's bank—and I do not say this in disparagement of his bank nor of the character of its loans—his institution loans largely to eleemosynary institutions, largely Catholic institutions, throughout the United States, a particular branch of business to which he has given his personal attention, and which he has worked up very successfully. He, in turn, divides these loans into small amounts and sells them to members of the Catholic church, of which he has a very large clientele, and to Catholic institutions which have reserve funds to invest in securities of that kind.

I do not know of any other trust company throughout the United States—there may be one or two—which engage in a similar line of business on an extensive scale, but trust companies throughout the country otherwise accommodate a certain amount of real estate borrowers by loans upon real estate, proportionate to the amount of fixed deposits not subject to check and deposits on time, which they feel it is safe for them to lend out on unliquid security such as a real estate loan.

If that idea is thoroughly established in your minds as the general practice of trust companies without taking a particular case as an indication of a general practice, or what might be done by trust companies, I think you will more clearly have in your mind the duties and functions that a trust company can perform with perfect safety in proportion to its deposits. I merely make that explanation, because I feel that Mr. Wade's institution is loaning to a great extent in a particular branch of this business peculiar to itself.

Mr. WADE. I am very much obliged to you for explaining my line of business.

Senator REED. I think we ought to proceed with Mr. Wade. I want to get the views of each of these men. When Mr. Wade gets through, if somebody else wants to take the other side of the question, I would be glad to hear them then.

Mr. WADE. Senator, I would like to have the privilege of answering Mr. Wexler.

Senator REED. I did not hear what he said.

Mr. WADE. I am very much obliged to Mr. Wexler for making an explanation of my business and advertising it so well, but if he would confine himself to facts, which I am sure he would if he understood, then it would be more interesting.

The facts are that we have loans on a few Jewish synagogues. [Laughter.]

Mr. WEXLER. That would not be a contradiction of what I said. You might sell them to your Jewish clientelle.

Mr. WADE. We have loans on the edifices of practically every denomination extant. We have loans on Baptist churches and Methodist churches and hospitals.

Senator NELSON. Any on Lutheran churches?

Mr. WADE. On Lutheran churches; yes, sir. We even take the Presbyterian in purely as a philanthropic idea.

Mr. FORGAN. It is the surest you have got. [Laughter.]

Mr. WADE. Then we have the business buildings scattered all over the United States, and our clientelle are the people of the United States and is not confined to any class or creed, color or nationality.

Senator POMERENE. But the class that have the money?

Mr. WADE. Yes, sir; Mr. Cash.

I distinctly said, however, that it was the institution over which I presided that I was describing and not trust companies in general.

Senator NELSON. That is general.

Mr. WADE. I do not think there is any deviation there.

Senator NELSON. You think that is commercially different?

Mr. WADE. I rather think so. I think if you loan on the collateral of stocks or bonds of a manufacturing industry, or an irrigation plant, or a railroad, or the stock of a commercial establishment itself, that is certainly aiding commerce in the country to be making such loans. I can not see the differentiation between the loaning to Marshall Field & Co. on its notes—if they borrowed, which they do not, I understand—and loaning to the Chicago & Northwestern Railway, which developed Marshall Field's business. It is all the commerce of the country.

Senator REED. Mr. Wade, you are getting away a little from what I had in mind. At the present time the law prohibits the national bank from loaning money upon real estate; that is to say, it can loan me individually $1,000 upon my note, back of which it has nothing but my general credit and whatever honor or ability I might possess; but if I was to give it a mortgage on a piece of property worth $100,000, it can not take the loan. Now, I want to know, whether in your opinion, such a restriction as that is necessary?

Mr. WADE. I think it is, Senator. If you are going to continue the operation of your national banking system, as it has been operated in the past 50 years.

Senator REED. I am speaking about a proper national banking system.

Mr. WADE. Yes. If you are going to have different classes of banks—that is, the commercial bank and the trust company and the State banks and the savings——

Senator REED. Do you want them all brought in together, Mr. Wade?

Mr. WADE. Yes, but I will explain that. The national bank is what is primarily known as a commercial bank. The national bank is primarily known as a commercial bank, as a general proposition. They loan on what is known as "commercial" paper generally and on collateral security, which moves the commerce of the country in one form or another, whether it be on railroad stock, or whether it be used in shipping cotton, wheat, or corn from the centers of growth to the centers of consumption; and to throw the door open to them to loan on real estate generally, without limitation, I think would be a mistake.

Senator REED. Because of the class of security, Mr. Wade?

Mr. WADE. No.

Senator REED. But of because of the length of the loan?

Mr. WADE. Because of the class of security, unless they had an avenue for the rapid disposition of it they would not have sufficient money to move the commerce of the country, and therefore the well-regulated national bank endeavors in all accomodations to confine its loans to the length of time, as a maximum, to six months.

Senator REED. That is a little different question. That goes to the question of the length of time of the loan. I attempted to go to the question of the amount of loans under certain conditions. I am talking about the principle, whether banks should be absolutely barred from taking real estate security. I understand you do this right along in national banks. I go down and I want to borrow some money. They say, "Well, we need some collateral." I say, "I have a mortgage on John Smith's home. I will put that up as collateral." And then I get my money. Of course, that is a mere matter of circumlocution. The result is exactly the same?

Mr. WADE. Yes.

Senator REED. And yet it is done every day in national banks, is it not?

Mr. WADE. Yes. In the first place, there is nothing prohibitory in the national banking law that I could find against loaning on real estate. It is a practice and it is a ruling of the department against it; not a specific law.

Senator REED. Ruling of the department?

Mr. WADE. A ruling of the department against it.

Mr. FORGAN. There are decisions of the courts against it.

Mr. WADE. There may be decisions; I am talking about the statute.

Senator POMERENE. Regulations of the Comptroller of the Currency?

Mr. FORGAN. Confirmed by decisions of the court.

Senator POMERENE. I knew that was the rule.

Senator REED. The act itself excludes it, in this way, under the rule or expression of one power or the expressions of the number of powers to exclude powers, and here is the language: "To exercise by its board of directors," etc. "By loaning money on personal security."

Mr. FORGAN. The courts have decided in accordance with your ideas.

Senator REED. I think so. I am very much in earnest about this matter, as a broad proposition, because the principle, if it is sound, might go into this bill, or it ought to go into some bill; if it is unsound it ought not; and, in view of your statement that you had so readily handled and made flexible these real-estate loans, and in view of the further statement that you thought this bill ought to be so drawn as to invite in and induce to come in the State banks and trust companies which do this kind of business we are talking about, namely, loans, largely upon real estate, I want to know now just what your views would be about how that class of business should be handled by national banks, when under this bill or any other bill.

Mr. WADE. First, Senator, I do not believe that the bill as it is now framed, with a few amendments—by adding the words "trust companies" or "member banks," would interfere with my business one iota. I would still conduct my general business on the same lines that I am conducting it to-day, but if I wanted to discount and if I wanted to acquire any of the notes of these reserve banks, then I ought to be required to put up the same class of security as the national banks, to wit, commercial paper.

And again, I want you to thoroughly understand the statement made by me in your absence that our institution in handling loans in the way we do is an exception. It is not the rule of trust companies. I was stating a personal experience rather than a general proposition; in fact, ours is the great exception.

Senator REED. But you find it is successful?

Mr. WADE. Yes; but I would not advocate that the door be thrown open to national banks for the loaning on real estate without limitation, but I would put this limitation on it, that a national bank might loan a certain percentage of its capital or its deposits——

Senator NELSON. Time deposits?

Mr. WADE. No; deposits to a certain percentage of its capital, or its deposits might be invested in real estate owned or upon real estate loans. The reason for that is this, that under the national banking act, while it is against the ruling of the department, and Mr. Forgan says the decisions of the courts are against the loaning on real estate, they may own their own building and their own office. That has been carried to such an extent, I think the records of the comptroller's office will show, that about 20 per cent of the capital of national banks is invested in real estate, and I maintain there should be a limitation there, and I further maintain that if I am permitted to invest 20 per cent of my capital in a building—call it what you may—that my neighbor across the street in the national banking business should be permitted to invest the same percentage in good, clean, real estate loans.

Mr. WEXLER. Suppose you invest your surplus?

Mr. WADE. I do not care what the percentage may be, whether it be surplus or capital, whatever you would call it, I maintain that $1,000,000 invested in 100 loans of $10,000 each are infinitely more liquid as an asset than $1,000,000 invested in a palatial office building. Therefore, I would permit the national banks to loan a percentage of their capital or their deposits or own real estate, but I

would not let it be both; in other words, when they get up to that percentage I would cut it out.

Senator REED. Whenever they get to a certain percentage in real estate loans or in buildings, then they would have used up that privilege.

Mr. WADE. That privilege, yes.

Senator POMERENE. Did Mr. Wade indicate the per cent?

Mr. WADE. No, Senator, I did not, because I have not given the matter consideration. I am answering these questions without any deliberation.

Senator WEEKS. I want to ask Mr. Wade one or two questions upon this particular subject, but I think perhaps as long as you are questioning him I had better defer.

Senator REED. I have to leave here in about 10 minutes, and would like to take up just one other matter. Otherwise, I would yield in a moment.

Mr. Wade, your proposition is that we should still have the national banks go on—I am taking up another subject now, and we will make this bill so that State banks and trust companies can come in by simply saying they may come in. Then, that would let the State bank go on and do business as it is now, and the trust company go on and do business as it is now, and the national bank would go on and do business substantially as it does now. Then we would have under one system three classes of banks, would we not?

Mr. WADE. Yes.

Senator REED. And then we would have two of those banks, to wit, the State banks and trust companies—concerns with as many different powers as there are variations in State laws. So that you would have this sort of a system: First, the national banks, with certain prescribed and limited powers; second, a trust company in the State of Missouri with very broad powers; third, a trust company in the State of Illinois with larger and different powers, and now I want to extend that—you can extend it to every State, as you might have 48 classes of trust companies, because they would be companies with 48 different sets of power, and they have 48 systems of State banks, with 48 different sets of power, and all these elements are to be consolidated into a bill, and all of them become a part of a system. I want to ask you if that is not liable to introduce a great deal of confusion.

Mr. WADE. Not the slightest, Senator. If you will follow the doctrine that I laid down, first, that the trust company and the State bank must put up the same amount of percentage on its capital that national banks do, as a contribution to the organization of the general bank or the reserve bank or five reserve banks that I have spoken of. They invest their money just the same as national banks, though they have no privilege of getting any of the benefits of the reserve banks over that that the national bank would have, namely, that if they require bank notes to meet the requirements of their business, they then have to be doing a commercial business, which woud be a branch of the trust company's business and a branch of the business of the State bank, and they would have to bring up the same general class of commercial notes that the national banks would have to bring up. Therefore, the national bank would be at no disadvantage under those conditions, because the national bank could not bring up

its office building and say, "Loan me $1,000,000 on this," no more than the trust company could come up and say, "Loan me a million dollars on my real estate notes."

Senator REED. I understand your point.

I want to follow that central bank stock further. When the First National Bank of Kansas City comes to the central bank with its commercial note and wants to borrow $5,000,000, of course primarily the question is, Are these securities good?

Mr. WADE. Yes.

Senator REED. And to a large extent you depend, as the manager now, of the central reserve bank or the regional reserve bank, upon that, but you require the First National Bank to indorse, do you not?

Mr. WADE. Yes.

Senator REED. And also to a large extent, knowing that bank to be a good, sound bank, you take that indorsement as of considerable value, would you not?

Mr. WADE. Yes, sir.

Senator REED. And that is because you know Mr. Sweeny; you know the kind of a banker he is; you know generally about his institution and because, too, it is examined and run under a certain system. I think we agree that far. Up comes the president of the trust company. He is loaning his money in an entirely different way. He is not subject to the same examination?

Mr. WADE. He would be under my recommendation.

Senator REED. He might be subject to the same examination under your recommendation, but under the law of that State where he operates—it may be a very loose law—he may be perfectly within his legal rights and yet be doing a business not anything like as safe as the First National Bank of Kansas City.

Mr. WADE. Then the Comptroller of the Currency and the manager of the bank would decline to loan him the money.

Senator REED. Even though his securities were good?

Mr. WADE. Absolutely so.

Senator REED. In other words, he would require that the State bank and the trust company, no matter what the laws were of their State, should conform to such regulations and be subjected to such examinations as to insure the stability of the institution as an indorser?

Mr. WADE. Absolutely.

Senator REED. Otherwise you would decline?

Mr. WADE. To admit them to membership.

Senator REED. That, put into effect, would mean this in its practical operation, would it not: That the State bank and the trust company would be practically wiped out as they now exist and would have to transform themselves all into a system that would conform to the ruling of the Federal authorities and the managers of the regional banks?

Mr. WADE. Not at all, Senator. You have got the wrong construction of the whole proposition.

Senator REED. Unfortunately, I probably have. You put me right.

Mr. WADE. It is not surprising, because you are not coming in contact with this business as I am each day.

Senator REED. I am trying to get at this: This is a matter of whether it would not compel them to come to one class?

Mr. WADE. No. Let me give you a concrete illustration of how that can be operated in the most practical way. Chicago some years ago inaugurated what was known as a "clearing-house examination," and they joined together at the expense of each other and yielded to private examinations of the members of the clearing house. In the clearing house of Chicago, as in St. Louis and New York, there are State banks and there are trust companies and there are national banks as active members. They also go under exactly the same examination. They are all subjected to exactly the same rules, and their assets must be clean or they are put out of the clearing house, because we do not want to be in partnership with the loose banker that we are afraid of.

Senator O'GORMAN. What happens to them when they are put out of the clearing house?

Mr. WADE. Well, I have never known, Senator, when one was put out of the clearing house since this system was inaugurated, because when a National bank and a State bank or a trust company can not stand the test of a rigid examination there is something radically wrong with it, and it is because of its inherent financial weakness that they will object to it; but I have never known of a case of where any of them were put out. It operates in this way: There are a committee of five usually that go over these examinations. If a bank is checked out by the clearing-house examiners as being clean O. K., that examination is filed away and the committee never sees it, and it has nothing to do with it; but if the examination finds bad banking practices, loose methods, or bad loans in the bank it is then reported to the committee, and that report is then taken up, analyzed, gone into, and detailed examinations of the criticisms made, and if they concur in the view of the examiner, he files his report as he originally wrote it. If they find he is in error, they correct the error and file the report, with such suggestions to the management as they, in their judgment, deem wise to clear up the defects in that institution. The result is that each of us is examining the other and is a check upon the integrity of the whole system. I know if they would pass my institutions with bad loans that the examination would be futile, and there would be no use of my paying the expense of it; but it has been found to be most beneficial in all of these centers where it has been tried, and the very best kind of an examination. We get the very best kind of results for the purification of the different financial institutions, whether State or National.

Now, then, carrying that a little further, the same system could be incorporated that is contemplated in this bill. The Comptroller of the Currency would have the right—not only the right but the obligation—to come into our institution and every other State institution just as often as he went to the national banks, and we would have to agree to subscribe to all of the rules and regulations and examinations that are made of a national bank to ascertain whether our assets were clean and good, and if they were we would pass, and if not we would be turned out, which we ought to be.

Senator REED. Nevertheless, we have in the system three different classes of banks. Two of those classes of banks are doing a business which you say the national banks should not do, unless it was

restricted. They are loaning money upon real estate. They are, in addition to that, doing various kinds of business that the national banks do not do. The effect of this is to bring you into one system, and you have the same right to go and get money that the national bank does.

Mr. WADE. On the same kind of paper?

Senator REED. On the same kind of paper, but if carrying these other classes of securities would be dangerous to the national bank, why is not the fact that you could carry the same class of securities in your trust company and State banks—why does not that impair your ability to meet your obligations to the reserve bank just the same as it impairs the national bank's ability to stand upon its feet and transact business generally with the country and meet its obligations?

Mr. WADE. I do not lay down the doctrine, Senator, that I would restrict the national banks to any particular class of business. I did not say that. I said that if you were going to continue the national system as it has been continued, and most successfully for 50 years, that I would lift the embargo against their loaning on real estate and allow them to own real estate or loan a certain percentage on real estate.

Senator REED. Would you now extend their line of activity as rather indicated in your last answer?

Mr. WADE. I think it would be ill advised. I think the national banks of the country themselves advise against it, but I personally would not have the slightest objection to it, nor do I believe the State banks would.

Senator O'GORMAN. Why do you think the national banks would advise against it?

Mr. WADE. Because, through their operation and experience they are trained to handle the commercial business of the country on short-time paper, and they are not, as a general proposition, I take it, equipped to handle long-loan business.

Senator O'GORMAN. Have not you heard national-bank men say from time to time there is no good reason why a State bank or trust company should enjoy banking privileges that are denied to national banks?

Mr. WADE. Yes; and I would not deny it to them. I have not advocated that.

Senator O'GORMAN. Yet I gather from you that it is the judgment of the national-bank people that the present restricting limitations should be continued.

Mr. WADE. I make that statement, because I have heard the subject, Senator, discussed before some of the best national banking men in the country, and I do not pretend to talk for the national banks, but I get from that discussion that as a whole—particularly the national banks that are doing a commercial business—would not care to do this; but if they did care for and desired those privileges, I would not make the slightest objection to them.

Senator REED. Mr. Wade, when you organized your trust company, with these manifold branches—I mean by that, branches you speak of—you took in those various branches of business because you thought they were lucrative, safe, and the proper thing for you to do?

Mr. WADE. Yes.

Senator REED. And they are greatly in excess of those privileges the national bank ordinarily assumes, or, indeed, has; that is true, is it not?

Mr. WADE. Yes, sir.

Senator REED. If your trust company came in under this system, had the same right to belong to the reserve bank, to put up securities and had money issued or paid to you on those securities, had the same kind of examination and the credit of the same kind of an examination that the national banks would have, why is it that your trust company would not then possess so many advantages that every national bank would at once want to incorporate under the State law as a trust company and come in and take the field of business?

Mr. WADE. There would be no reason why they would not, if they desired to; and there is no prohibition against them doing it to-day.

Senator REED. Why would not they all necessarily do that same thing? You have branched out beyond their sphere of the activity touched by the national banks, because it is an inviting field for profit. Now, give to you every advantage that the national bank has in addition, it seems to me you then, as a matter of mathematics, have every advantage they have, and you have the additional advantages, and it would seem to me that inevitably, assuming your class of business to be safe and sound—and I know you think it is and most everybody else thinks it is who do business with you—we all feel safe with you in Missouri—why would not they all want to be trust companies instead of national banks, and why should not they be? Why should not every member of this system have the same rights as every other member?

Mr. WADE. There is no reason in the world why they should not.

Senator REED. Then you have answered my question as you might half an hour ago, where I asked you if national banks should not be allowed to loan upon real estate, because that is now the lesser embraced in the greater.

Mr. WADE. No; to answer your question more specifically, it would be this: That if it were now or even with the new law, or with the law as it is to-day, of any particular advantage to any national bank, there is nothing in the world to prohibit a national bank from changing into a State bank and having all the privileges we possess now.

Senator REED. But, Mr. Wade——

Mr. WADE. Pardon me just a moment.

Senator REED. You would now have it to forfeit its rights as a national bank and the advantages of it.

Mr. WADE. But they have no advantages. You have taken all advantages away from them.

Senator REED. You keep saying, "You have done this and that." And I have not done anything, except occasionally to borrow some money from a bank, and when my banker cuts me off I am going to begin to draw.

Mr. WEXLER. Is that a threat or a promise?

Senator REED. Well, both. [Laughter.] Without joking about it, and I am very serious about it, the national bank has in the past had an advantage. You think that during the last year those advantages have been largely dissipated. Suppose we take whatever advantages they do have now and confer them upon the State

bank and upon the trust company. Why, then, would not every national bank want to become a trust company, coming into this system with the additional and enlarged powers? I can not see why.

Mr. WADE. That can only be explained by the gentlemen who are primarily running national banks and in no way connected with trust companies. If they saw those privileges to be of such advantage as you picture they would now go into the business, if they desired to.

Senator NELSON. Let me interrupt both of you, if you will allow me. Is it not a matter of fact that a great many of these national banks have a loan and trust attachment, run by their officers?

Mr. WADE. Many of them see those advantages and have organized a trust company, either directly under or indirectly owned by the banks.

Senator NELSON. I think our big Chicago banks have that.

Mr. WEXLER. We have it.

Senator NELSON. I think our friend at the head of the table has a loan and trust company as an appendix to his regular bank.

Mr. FORGAN. I am the originator of the idea.

Mr. WADE. What I wanted to get into your mind was this: That to have the banking power of the United States developed to its greatest strength——

Senator REED. I see the advantage of that.

Mr. WADE. Permission should be given these State organizations to come under Federal control, supervision, and examination, and have an inducement to get them to do that; in order to conserve and bring up the strength of the whole system you should offer them some privileges.

Senator REED. And your idea is—and I take it you intend to urge that upon the committee—that they should come in and be entitled to become members with full rights and privileges as members?

Mr. WADE. Our committee practically recommends that.

Senator REED. I wish I might pursue this with you longer, Mr. Wade, because I am getting some light, but I shall have to go.

Senator MCLEAN. On what percentage of the present value of your real estate do you issue your notes?

Mr. WADE. Usually on a 50 per cent valuation.

Senator SHAFROTH. The papers in Washington gave an account of the proceedings of the convention at Chicago of the bankers, and I note that that paper stated that Mr. Forgan made the assertion that this bill would produce a great contraction of the currency. It was also stated by Mr. Dawes, formerly Comptroller of the Currency, that if this bill became operative, it would produce a great expansion of the currency. Can you explain how, under the operations of the bill, it is going to affect the currency question, and which statement, in your judgment, is correct?

Mr. WADE. Mr. Forgan is here to answer for himself, and I hardly think it would be proper for me to interpret his remarks for him. Mr. Dawes is not here, and I would also hesitate to go into the matter of his interview.

Senator SHAFROTH. We would like to have your view of it.

Mr. WADE. I would prefer, Senator, not to go into a discussion of the subject.

Senator SHAFROTH. Well, I wish to call to your attention this situation.

Mr. WADE. I think you will agree with me that it would be improper for me to try to express Mr. Dawes's contention in his absence.

Senator SHAFROTH. You decline, therefore, to make any statement in the first place because the man who is quoted in the newspapers is here to-day and in the other case because the man is away?

Mr. WADE. I will say this, speaking personally, as a member of this committee, that I believe they are both mistaken.

Senator SHAFROTH. I wish you would give us your view, because we want to get your view of this bill and what it is going to do when its provisions are placed in operation.

Mr. WADE. I think the effect of this bill will be——

Senator NELSON. As it is, without any changes.

Senator SHAFROTH. Yes; as it is now, without any changes.

Mr. WADE. I think the effect of this bill, as it is now, will be absolutely impossible to create the 12 or more reserve banks provided for.

Senator SHAFROTH. Suppose there are only five. What would you think would be the effect of the passage of the bill on the contraction or expansion of the currency with only five reserve banks?

Mr. WADE. I do not think it would have the slightest effect.

Mr. WEXLER. Senator, the other gentlemen here have made accurate calculations on that.

Mr. REYNOLDS. May I inject just a word here? I think it will answer the Senator's question in so far at least as it was prompted by Mr. Dawes's statement. In his absence he is of course unable to make any explanation for himself, but Mr. Dawes talked with me regarding this matter and he based the theory upon the fact that this bill, if enacted, would provide for an expansion of the currency upon the theory that in the open market for commercial paper it would be impossible to get credit from the Federal reserve banks through the use of this commercial paper and in that way would provide for expansion of the credit. That was the thought he had in mind, I am sure. Of course, I can not quote his exact words.

Senator SHAFROTH. Please explain that over again. I did not quite catch it.

Mr. REYNOLDS. His theory is that the establishment of an open market for commercial paper in the bill would provide for the over-expansion. That is what he had in mind. It is a matter which can be calculated definitely. We have figures as to what the reserves are, and what the deposits are, on the ratio of loans and cash reserve, etc., and I will submit them later on, when I appear before the committee.

Senator HITCHCOCK. Senator Weeks wished to ask some questions, and as Senator Reed has concluded the Senator may now proceed.

Senator WEEKS. This question of commercial banks loaning on real estate is one of a great deal of importance. It has been before Congress in one way or another many times, and I presume it will be some time definitely determined by legislation which is pending or will be pending providing a class of banks for that purpose. I think the country and perhaps Congress has reached the point where farm-loan banks will be established, as is done in Europe, but Mr.

Wade seems to have had a different experience from most commercial institutions, and I want to ask him two or three questions about his experience.

Twenty or twenty-five years ago there were organized a great many farm loan companies in this country. Their purpose was to loan money on farms in the West, pool the mortgages, making $100,000 of different denominations, we will say, and issuing debentures against those mortgages. For a time they operated very successfully; the debentures were sold in $500 to $1,000 pieces to any purchaser who had the money for that kind of investment. The competition which developed as a result of this business led the companies to loan more than they should on farms in many cases, so that they developed a large number of poor loans—bad loans—and the final result was that most of those farm-mortgage companies failed. They did, however, generally speaking, I think in all cases, generally guarantee the loans. Those loans were bought to a great extent by institutions in New England. I am not sure about the State, but I think Senator Hollis will recall that the State Bank of New Hampshire had many of those loans and made very large losses as a result.

Senator NELSON. I want to call your attention, Mr. Reynolds, to the fact that that was not done by any regular bank, either National or State bank. They were sui generis and were established by speculators and promotors.

Senator WEEKS. I am simply stating what actually occurred. Mr. Wade testifies that he makes those loans and sells them in the same general way, and, much to my surprise, he seems to base his loans largely on the property of these institutions. One question I want to ask him is this: Are your entire loans based upon the properties of these institutions?

Mr. WADE. Oh, no; only a small proportion.

Senator WEEKS. Do you loan on farms?

Mr. WADE. No; we do not make loans on farms.

Senator WEEKS. Do you loan on city blocks?

Mr. WADE. Yes, sir.

Senator WEEKS. Improved and unimproved?

Mr. WADE. Only on unimproved property in St. Louis.

Senator WEEKS. On unimproved property only in St. Louis?

Mr. WADE. That is all.

Senator WEEKS. And on improved property in other cities?

Mr. WADE. Yes, sir.

Senator WEEKS. Do you make these loans in every State?

Mr. WADE. Yes, sir; where we get an application for them without qualifications.

Senator WEEKS. What kind of machinery do you have to determine the values which shall be placed on them?

Mr. WADE. We never make a loan, Senator, without a personal examination by an officer of our company; and frequently, if the loan is large, by two or three officers; and frequently by two or three visits to check up one another; and then we never make a loan without a percentage of the loan paid off annually. For instance, if we make a 10-year loan we exact a 10 per cent annual payment, and then we make the notes mature annually. As a tenth of the loan is paid off the security remains the same, and as 30 per cent is paid off

the security still remains the same and the loan is getting better. The purpose of that is to avoid changing of values in any locality. We never make on outside loans—we did in St. Louis—but we never make, on what we call our serial plan, a loan without annual maturities and sometimes semiannual maturities.

Senator WEEKS. Mr. Wade, would you recommend banks generally engaging in that kind of business?

Mr. WADE. I would have no objection to it, Senator; not the slightest, provided they have the necessary experience in handling that class of loans and the machinery to conduct it.

Senator WEEKS. Of course, that is true. It must be operated with great caution and with great judgment or it would be a pretty bad piece of business, would it not?

Mr. WADE. So it would be with any other line of banking.

Senator WEEKS. But there are a great number of men who have good judgment as to commercial credit who have not the machinery and probably would not have the capacity to pass upon real estate values in all sections of the country.

Mr. WADE. And that is why I have heard the national banker object to that plan. As I have stated, however, I have had some business experience along that line.

Senator NELSON. Senator Weeks, as I understand this system it is something similar to a railroad mortgage. They have one blanket mortgage and issue a lot of bonds. They have one bond of one denomination, another of another, and those bonds are scattered all around, but the security is one instrument.

Mr. WADE. Except that we have annual payments and the railroad mortgage matures all at one time.

Senator NELSON. You have one mortgage, but the notes will be in different hands. It is in principle the same as a railroad bond and mortgage.

Senator WEEKS. You would not advocate banks doing this unless they were going to resell the mortgages in some form, except in a limited way, would you?

Mr. WADE. I would not have any objection to that, Senator, if they do not put all their money into that line of loans.

Senator WEEKS. Where would you draw the line?

Mr. WADE. By judgment and experience—let me qualify that statement?

Mr. FORGAN. Would you not draw the line on the difference between time deposits and check deposits?

Mr. WADE. Not necessarily so.

We have about 25 per cent of our loans in what we call our bond account, a real estate loan account—25 per cent of our deposits I should say. I have never yet heard of a national bank or a State bank or a trust company failing if their mortgages were sound. If their mortgages were absolutely good, clean paper, and were made with care, I never heard of a failure of any kind of a bank from that cause.

Mr. WEELER. Mr. Chairman, will you allow me to make a statement? I do not want to interfere with Mr. Wade's statement at this time, but I want to make this statement: Upon the fundamental principles of this bill and the suggestions which this committee have made there is no difference among the members of the committee,

but with regard to certain details of the bill there is some little difference of opinion, which is created to some extent by the training of one banker which may be different in a State bank or trust company and another banker who might have been trained in a national bank. There is a great difference with regard to what is a trust company. The original idea of a trust company was that it should perform trusts, should act as trustee for mortgages and bond issues, administrator of estates, administer property of absentees, and various quasi-financial duties of that character. Out of the inception of that business has grown a general banking business on the part of the trust companies which they should never have been permitted to do, but which the trust company of the type of Mr. Wade's company is now doing. These companies do all of the business that a national bank does; they handle commercial accounts, buy and sell exchange, foreign and domestic, and they are engaged in every branch of the business that a national bank does, and in addition to that they do all the business of a trust company. The business of a State bank of deposit is no different from the business of a national bank except that they loan a certain reasonable proportion of their deposits upon real estate.

Senator Reed asked some very pertinent questions with regard to the organization of these banks and with regard to lending of money on real estate, and my ideas are so different from what Mr. Wade has stated that I feel that in justice to myself I should set them forth at this time. I think that the State banks, accepting the deposits of the public, and subject to check, should be permitted to come into this organization provided they comply with all the rules governing the management of the national banks, because the business which they do is identical.

Senator NELSON. Would you have them do that in every locality?

Mr. WEXLER. No; I will come to that. I think that the banks located out of central reserve cities and reserve cities should be permitted to make a proportion of their total loans upon real estate, but not more than 50 or 60 per cent of the value; but the banks located in reserve cities, central reserve cities, do not need it, because that business can be taken care of by savings banks and by banks carrying deposits not subject to check. Further than that the central reserve cities and the reserve cities are the great avenues of credit for the commercial life of the country and their funds should be left there for that purpose.

Senator WEEKS. What percentage of their loans would you say should be devoted to that purpose?

Mr. WEXLER. I should say a percentage of 25 or a maximum of 30 per cent of their total loans. I think it has no relation to the capital and no relation to the surplus of the banks. That question of course must be determined by the character of the loans and the business policy of the banking house.

Senator SHAFROTH. What limit of time would you suggest; or would you limit the time?

Mr. WEXLER. Yes, sir; I would limit the time to the seasonal period for borrowing for making crops.

Senator NELSON. That hits your country but not ours.

Mr. WEXLER. I am going to come to that in a moment. We are going to have in this country—we are bound to have in this country—

a farm-lending credit bank which will loan on farms for 5, 10, 15, or 20 years just as they have in foreign countries, and such loans should be taken care of in a bank of that character, and not out of the liquid funds of the country with which we carry on the commerce of the country. Such loans should not be made out of any money left on deposit and subject to check. If such loans are made upon money subject to check sooner or later you are bound to involve yourself in trouble and for two reasons: First, You can not always find a market for those notes. There is a very limited market for mortgage notes in certain sections of the country. In Minnesota and Wisconsin I understand there is a good market for them, but in our section there is not any market. Again, if you foreclose on your mortgage and want to sell the property there is not always a buyer for it. My conception of the organization of this bank is that the State banks should be permitted to come into the organization, provided they do exactly the same character of business as the national banks. They should be permitted to loan a certain percentage, say not more than 30 per cent on real estate, and I think on loans maturing in not more than one year; but I would be willing to concede that. I think the trust company, performing the functions of a trust company, should be left entirely out of this system, because trusts are administered under the particular law of the particular State in which the trust company is located. If our trust company is appointed executor of a will or administrator of an estate we are governed entirely by the laws of the State of Louisiana, and whatever law should be made by the Federal bank act for the government of the trust company would not apply.

Mr. FORGAN. What would you do in the case of Illinois, where all the trust companies and all the State banks are organized and the same law governs them all?

Mr. WEXLER. I think that ought to be corrected, Mr. Forgan. I think the State banks and trust companies are as separate in their functions as one class of commercial dealers is separate from another.

Senator NELSON. You overlook this fact, however: It is all very good to say that that should be done in a large city and that you should have a separate bank doing one kind of business and a loan and trust company doing another kind of business and a commercial bank doing another kind of business. But you can not have those three kinds of institutions in a little country town of 2,000 or 3,000 people. You can not organize three separate institutions. One bank must do all kinds of business.

Mr. WADE. As you know, I stayed over to be here to-day and to be interrogated, and I would like to get through.

Senator HITCHCOCK. Senator Bristow is here and would like to ask a few questions.

Mr. WADE. Certainly.

Senator BRISTOW. I was interested in one remark which Mr. Wade made, and that was in connection with issuing one note on credit of another note. I think Senator Hitchcock was asking questions and you objected to the present national-bank note because it was a currency based on credit.

Mr. WADE. Based on a fixed obligation.

Senator BRISTOW. I understood that you objected to that kind of currency and I could not see why the currency recommended in

this bill and why the plan which you suggest is not a currency based on credit. It is, is it not?

Mr. WADE. Yes; but there is quite a difference there, Senator. We recommend as a committee that notes be based on what is known as commercial paper; that is to say, paper that is issued for the purchase of the products of the earth, of the farm, of the factory, of the mine, of the commercial establishment. That represents the commerce that is gradually consumed within a year or within a six-month period, as against the fixed obligation such as your Government bond. Under the present law the 2 per cent bond never becomes due and is based on a fictitious credit.

The market value of those bonds is fictitious. This country is not and never has been on a 2 per cent basis, but by the operation of law and the assistance of the national banks we have sold six hundred or more million dollars of 2 per cent bonds, and they are apt at any time to depreciate in value to an extent that might affect the value of the notes, or at least greatly injure the national banks.

Senator BRISTOW. I realize that; but I understood your objection to be against a currency based on credit.

Mr. WADE. No, Senator; just the reverse. It must be based, first, on a 40 or 50 per cent gold reserve, at least 100 per cent of commercial short-time paper that matures within 90 days at the very outside, also secured by all the assets of the reserve banks.

Senator BRISTOW. I understand you now; you object to the national-bank note being based upon Government bonds which has a secured circulation, as I understand it—of course you understand that I am not an expert at all on these matters. The distinction you make is that one is a fixed obligation and the other is a rapidly maturing obligation?

Mr. WADE. Yes, sir. Every bale of cotton that is ginned is consumed within a short period of time. Every bushel of wheat is consumed within a short period of time, every bolt of calico on an active merchant's shelf gradually goes into consumption, and they issue, in order to move that commerce, what is known as commercial paper, which matures within a short time, and it consumes itself, and therefore brings back from the Nation all over the money to meet the obligation of these short-time notes.

Senator BRISTOW. That is theoretically true, but as a matter of fact does not a very large part of the notes of a bank practically constitute a continuous loan? They are renewed every 90 days over and over again?

Mr. WADE. Not the commercial paper. The well-regulated commercial house never renews its paper.

Senator BRISTOW. But are you not speaking of the practice in a very limited part of the country?

Mr. WADE. No; it is universal.

Mr. FORGAN. It constitutes the great majority of the paper handled by the banks in the cities of the country.

Senator BRISTOW. I know; but that is one of the things I think this bill is being framed for—for the banks in the cities.

Mr. WADE. We went over that very thoroughly yesterday. Unfortunately you were not here.

Senator BRISTOW. I was engaged in the Senate Chamber. I know that the bank in the small communities—the national bank—necessarily carries a great deal of paper that is renewed—

Mr. WADE. We admit that.

Senator BRISTOW (continuing). From time to time. It is not merely a temporary loan, but it is in fact part of the capital of the business.

Mr. WADE. We admit that. On yesterday it was explained to your committee that that class of banking is always taken care of by the reserve bank, the individual bank in the individual locality where they carry their reserve account, and they carry their reserve account for that purpose.

Senator BRISTOW. It strikes me that that is the theory; that that class of banking—meaning the country banks—is taken care of.

Senator NELSON. It is not taken care of.

Senator BRISTOW. It may or it may not be, depending upon the will of the fellow that has to take care of that bank, and Senator Hitchcock has brought out that feature in his questioning far better than I can in the questions I am asking—as to the independence of the small banks of the larger bank—and I wiill not pursue that.

Mr. WADE. The answer to that, Senator, is this: That no country bank that I ever heard of has ever failed, if it was sound, for want of accommodations from the reserve cities of the Unites States. They never fail for that reason. They fail usually from shiftless management or from dishonest management, and one is just as bad as the other.

Senator BRISTOW. I am sure that is true.

Mr. WADE. The country bank, so called, gets all of the accommodation that it is entitled to by reason of its stability, and its requirements are necessarily small. Many banks, Mr. Forgan will tell you, he loaned from $1,000 to $100,000 and $500,000 to meet the requirements of the commerce of the country in that locality.

Senator HITCHCOCK. At the present time the country bank has the privilege of selecting any bank in a reserve city near by to do business with.

Mr. WADE. Yes, sir.

Senator HITCHCOCK. And if it is not accommodated at one bank it will transfer its loan to another?

Mr. WADE. Absolutely.

Senator HITCHCOCK. Under this system proposed it would be dependent on one single bank and one single management?

Mr. WADE. No.

Senator HITCHCOCK. It would very largely.

Mr. WADE. No.

Senator HITCHCOCK. You think the banks in the reserve cities would continue to take care of the country banks?

Mr. WADE. Absolutely.

Senator HITCHCOCK. When they are compelled themselves to discount paper in the central bank?

Mr. WADE. Absolutely so.

Senator HITCHCOCK. I doubt it.

Mr. WADE. Senator, the answer to it is that they are doing it now and why should they not do it when they have the greater facilities? The trouble experienced by the country banks in times of stress is the inability of reserve banks to provide the sinews of war to take care of the country banks, and we are trying to get you to provide those sinews of war so that we can take care of them. If I were to

tell you that the national banks in reserve cities—central and reserve cities—spend thousands and hundreds of thousands of dollars a year to develop customers from country banks you might not doubt my statement. But almost all of these large institutions have three, five, and some of them seven or eight men traveling 365 days in the year. For what? To solicit country bank accounts.

Senator HITCHCOCK. Is it your opinion that country bank accounts will fall off under this bill?

Mr. WADE. No; only those classes of country banks that will go into a reserve bank in its particular locality. There may be some diminution of deposits in the large centers, but it will not be to any appreciable extent and it will not be to any serious injury, if you put the reserve in a proper way where you do not require them to carry too much cash in their vaults.

Senator BRISTOW. When Senator Hitchcock was interrogating you, you spoke about the inflation of the currency and you said it would not be inflated, and that only so much currency would be had as the needs of the commerce would require. How would you ascertain what commerce required?

Mr. WADE. By the demand for loans. If I had a deposit account, the only way I can find out what the commerce of that community requires is the demand made from my customers for loans.

Senator BRISTOW. There is no limit to the demand for loans, is there?

Mr. WADE. Oh, yes. One of the greatest hardships that the banker has to go through at times is to find safe loans. After the panic of 1907 money went begging; 12 or 14 months ago money was selling very low, so low that it required a great deal of effort by many of the banks to make loans, and there was a decided contraction of loans, and this is particularly true when there is a redundancy of credit and money in the United States.

Senator BRISTOW. Then when there is no demand for loans or a slight demand for loans you would retire the money—the circulating currency?

Mr. WADE. Absolutely.

Senator BRISTOW. What would be the effect of that?

Mr. WADE. The effect would be to bring things down to a normal condition.

Senator BRISTOW. What do you mean by a normal condition?

Mr. WADE. A condition by which a bank could loan its money and live.

Senator BRISTOW. Not an increased rate?

Mr. WADE. Not to any unreasonable extent—only to an appreciable extent. You understand, Senator, under any bill you inaugurate here you can not get money like you would take coal out of a coal cellar. When you get bank bills you have to give something for it, and that something has to pay interest, and therefore you are not going to part with the bills receivable bearing a rate of interest unless you can use the money and use the currency. Currency is of no more value than a bale of hay if you can not make it earn something. Therefore you are not going to pick out things just for the privilege of doing it and separate with your profitable business and pile it up in your vaults. There would be no object in that.

Senator BRISTOW. Of course you understand that I am not a financial expert, and do not pretend to be.

Mr. WADE. Neither do I.

Senator BRISTOW. What harm is there in having plenty of money and low interest?

Mr. WADE. By creating an inflation if you had too much of it.

Senator BRISTOW. Now, we have quite a stable amount in circulation now. We will say that some times it is hard to find loans and other times very hard to find money to make the loans. When money is plentiful and interest rates are low, is that any detriment to the country in any way?

Mr. WADE. Usually when money is in action or loaned it is because of the inactivity of the commerce of the country, and stringencies are not brought about in the United States by conditions usually arising in the United States but chiefly by conditions abroad, and through our unfortunate financial system as it now exists when such times arise as the panic of 1907 and 1893 Europe contracts its credit to protect its gold reserves, and it is in the contraction of that credit from the United States either through the sale abroad of securities which come back to us or checking off the export goods that we send to them, that we as bankers must contract our loans, and what we want is not more currency to conduct the business of to-day, but we want a currency that when fear and panic goes over the land we can go and put up our securities in the form of commercial paper and get the necessary currency to do business on it.

Senator BRISTOW. Have you not got it now?

Mr. WADE. No; we have not, and if fear and panic should strike this country to-day you would go through the same disgraceful experience as you did in 1907.

Senator BRISTOW. Why?

Mr. WADE. Because of the contraction of currency and credits. In the first place, Senator, 95 per cent fully of the money loaned in this country and in all other countries is loaned on credit and not on money. Credit is the great thing; not the currency or money.

Senator BRISTOW. You spoke of the panic of 1907, and said we would have the same thing over again. Why not use the $500,000,000 provided in the Aldrich-Vreeland bill?

Mr. WADE. The answer to that would be, Why have not we used it during the past year when money was close and the interest rate high?

Senator BRISTOW. I supposed the interest rate had not been high.

Mr. WADE. Yes; they were high. That law is so impracticable, so cumbersome in its operation that if a bank in St. Louis were to make application to exercise the privileges of that law it would be subjected to severe criticism. First it must go to its competitors and tell them "my condition is so-and-so, and I want you to join with me as a member of the reserve association to make an application to Washington to get money."

Senator BRISTOW. Well, I have heard that criticism. It gives too much publicity. But could not that be changed?

Mr. WADE. All laws can be changed, yes. But you have not changed that law in five years and we opposed the enaction of such law.

Senator BRISTOW. If agreeable to the chairman I would like for you, if you will, to submit a statement to be incorporated in your hearing before the committee which you are now making, as to what changes should be made in that law to make it useful in the event of a panic or tight money market such as you say we have had in the past six months.

Mr. WADE. I would not presume to do that, Senator. I would not want to arrogate to myself the wisdom of the banking fraternity. I am here as a member of a committee and if the chairman of the commission should direct us to work along those lines I have no doubt we would be glad to do so.

Senator BRISTOW. That is too much like the Democratic policy. I think we are entitled to your judgment as well as the collective judgment of all the gentlemen who are associated with you.

Senator HITCHCOCK. The committee will take a recess until 2.30 p. m.

(Thereupon, at 12.55 p. m., the committee took a recess until 2.30 p. m.)

AFTER RECESS.

The CHAIRMAN. The committee will come to order. I think that the Senator from Kansas desires to ask some further questions of Mr. Wade.

Mr. WADE. May our chairman make a statement first?

The CHAIRMAN. Certainly.

Mr. FORGAN. Mr. Chairman and gentlemen, I wish to assure the committee that we gentlemen who have come from different parts of the country are putting our time entirely at your service, and we wish to meet you just as you wish to have us meet you. We are going to presume, however, to make a suggestion. There are seven of us, and we each have one or more branches of this subject to place before you. We feel that if we had been allowed to do so, 50 per cent of the questions that have been asked would have been answered by us in the regular course, as we came to them. We are charged with the responsibility of representing to you here the reasons why the conference held in Chicago made these suggested changes in the bill. We are perfectly willing that each of us should be cross-examined as to his individual views on the whole subject, and we will be very glad to be called for that purpose; but we feel that if we are allowed to get our views before you gentlemen you will get answers to your questions. So that it will save your time and save ours by obviating the necessity of asking questions which we will answer in the course of our taking up the subjects as we come to them.

For instance, the next question that comes up, after we are through with Mr. Wade—and of course we do not want to interfere with Mr. Wade's cross-examination at all—is to be taken up by Mr. Chapman, and he is prepared to address you in regard to the next important change which occurs in section 12, paragraph B, on page 16, and he will explain to you why, in the opinion of our conference, the Federal reserve board should not be given power to require but only to permit Federal reserve banks to rediscount the paper of other Federal reserve banks. Every one of us has already answered that question

individually, and he, having come prepared, we want to have him heard, and he would answer it, just as we have all answered it, and the time of the committee would be saved.

There is this further reason why I ask your consideration in this matter: Some of us who are here are employees of institutions, and our time is not our own. Some of us have duties to perform at home, and some of us left home having made arrangements to return by about this time. Mr. Chapman, for instance, would like very much to leave this afternoon. He has made his arrangements, he has got his reservations made, and he would probably not take more than 10 or 15 minutes to place the subject before you.

Mr. Maddox comes from Atlanta. He is going to take up two questions that have been materially changed in the proposed measure since he prepared his address. He will have to adapt his address to the changed conditions; but they are all subjects that you are questioning every one of us on. If you will let us finish and then call us before you individually to get our individual views on the subjects that we have not addressed you on we will be very glad.

The CHAIRMAN. The substance of your suggestion is that you wish to suggest to the committee that the cross-examination should be confined to the topic upon which the witness is speaking?

Mr. FORGAN. Either that, or else finish that subject before you cross-examine us generally. Get our opinion on each specific subject before you cross-examine us. Then we will stay here and be examined individually on the general questions. If the reason given by our specially delegated member is not a satisfactory explanation of our reason, then you can hear the rest of us afterwards.

The CHAIRMAN. If there is no objection by any member of the committee to that policy, I think it would be very valuable to us.

Senator BRISTOW. Of course, I realize the desire of a methodical business man to proceed with a thing like this as he would with a business matter; but when a party appears before the committee and makes a statement it naturally is fruitful of suggestions, and when questions are asked it leads from one thing to another, and the result is that you have a diversity of views which, to me, is very much more useful than a carefully prepared paper may be; and while, as far as I am concerned, I would be very glad indeed to accommodate myself to the convenience of these gentlemen, I think they could be of much more use to us members of the committee if they would allow us to pursue the usual method in eliciting opinions on hearings of this kind.

Senator POMERENE. I agree with Senator Bristow. We are here to get at the truth, and that is what we need—cross-examination. While I do not mean to criticize any of these gentlemen—I think they are going to tell us the truth as they see it and as they understand it—when it comes down to these details it is very apparent that they differ, as honest men do differ, on these subjects, and that is the most illuminating part of this cross-examination, to me. I want to know the truth about this, and I do not care how long it takes. It is a pretty serious problem, both for bankers and the public; I understand that very thoroughly; but you can not elicit information by having each man come in and testify in chief and then recall each one for cross-examination.

The CHAIRMAN. The committee must exercise its discretion with regard to the matter of cross-examination.

Mr. REYNOLDS. I feel, Mr. Chairman, that we are here by the courtesy of this committee, and while Mr. Forgan has expressed what would be most convenient to us, yet we are entirely subject to your call, and we hope you will proceed in whatever manner as will best satisfy your purpose, to solve this problem, as you believe, correctly.

Mr. WADE. Provided you will let me go, sir.

Mr. FORGAN. I only made the suggestion thinking it would save the time of the committee.

Senator REED. There is this to be said about it, Mr. Forgan: You make some remarks, and at the time you are making them the very thing a man wants to know occurs to his mind, and if he puts it aside and lets it get cold, a chain of ideas is broken and may not come back again, partly because of the limitations of the members of the committee. I know it is, as far as I am concerned. But I think we can well take into consideration the statement of Mr. Forgan, that others are to follow, and therefore perhaps we may abbreviate somewhat the examination.

Senator POMERENE. If some of the other witnesses here present want specially to get away we will try to accommodate them.

Mr. FORGAN. There are at least two that have only one subject each.

The CHAIRMAN. The committee will try to accommodate those gentlemen. Mr. Wade, the Senator from Kansas desires to ask you a question or two.

Mr. WADE. Very well, sir.

Senator BRISTOW. Just before the lunch hour I asked you if you would submit, as a part of your statement, your judgment as to what changes ought to be made in the Aldrich-Vreeland bill in order to make it respond to the demands of the country during panics or hard times, and I thought you rather hesitated to do that. I think it is entirely pertinent, because it had been suggested by a number of Members of the Senate, and of the House as well, that a temporary change might be made in the Aldrich-Vreeland bill which would answer any immediate purpose without taking up the more elaborate provision of the currency legislation, and it was with a view of having your views, and views of the gentlemen who are here, upon that question that I asked that it be incorporated in the record. I think that anything that relates to the present law and proposed changes would be useful to us, and I would like very much, if you could, to have you submit your criticism of the bill as to its impracticability so that I might have it for consideration.

Mr. WADE. Senator, in the first place it has been six months or more since I have read that bill. I know in a general way it is impracticable, but to attempt to tell you offhand, or to try to criticize it in a meeting such as this, I would not care to attempt it, because I do not believe I could do the subject justice; and then again, I would not like to be singled out as one of the committee of seven who were invited here to prepare in concrete way a criticism of such a bill. I would rather take counsel and have the benefit of the counsel of my associates.

Senator POMERENE. That is what this committee is trying to do now.

Mr. WADE. If that were the judgment of our committee I think no doubt the chairman of our committee would be glad to call us together for the purpose of taking up that subject and giving you the general opinion on that subject after it is discussed by us.

Senator BRISTOW. When I made this request, I was inquiring as to how you would ascertain when more money was needed, when the need of commerce, as you expressed it, would demand a larger circulation, and you said it would depend upon the demand for loans. Now, do I understand by that that whenever a bank had more demands for money than it had the money to supply such demands, it would then take a part of its assets to the central bank in one instance and the board of control in the other and secure additional currency for the purpose of meeting such demands?

Mr. WADE. Yes, sir; your understanding of that is correct.

Senator BRISTOW. And that additional currency which this bank secures is issued according to your plan by the central bank, and according to the plan of the bill by the Federal board, through the regional bank?

Mr. WADE. Yes, sir.

Senator BRISTOW. And your suggestion is that the regional bank have 40 per cent of gold as a guaranty fund, a reserve fund, against this, as well as its credit?

Mr. WADE. Yes; 40 per cent gold reserve against all notes issued and 100 per cent commercial paper plus the total capitalization of the bank.

Senator BRISTOW. This 100 per cent commercial paper comes from the bank seeking the additional money?

Mr. WADE. Currency, bank notes; yes, sir.

Senator BRISTOW. The interest on that, of course, goes to the regional bank?

Mr. WADE. Yes, sir.

Senator BRISTOW. And the bank puts out the money and forfeits that?

Mr. WADE. Not necessarily the interest on those particular notes. You take your paper to the reserve bank and discount it. Your notes might bear 4 per cent. They might bear no interest, because they might have been discounted themselves, or they might bear 6 per cent, and you have to pay the rate for the use of that currency that was fixed by the Federal reserve bank in the district in which you were located. The rate might be higher or it might be lower.

Senator BRISTOW. Suppose the notes, the majority of those notes, draw 6 per cent.

Mr. WADE. I think not.

Senator BRISTOW. I am just supposing that. In some parts of the country they would and in other parts of the country they would not?

Mr. WADE. Yes.

Senator BRISTOW. Suppose they do draw 6 per cent. What would the regional bank charge this local bank for the use of the money?

Mr. WADE. Depending entirely upon the demand that was made on the Federal reserve bank, if it was properly managed.

Senator BRISTOW. Suppose it said 4 per cent. What becomes of the margin of 2 per cent?

Mr. WADE. Just exactly the same condition would exist as now, without this bill being in force. We would take $100,000 worth of paper, and I would go to Mr. Forgan and say, "I would like to sell you $100,000 worth of paper." If I discounted the note at 4 or 6 per cent and sold it to him on a 6 per cent basis, I would make 2 per cent and, on the other hand, if I discounted it at 4 per cent, I would lose 2 per cent in the transaction.

Senator NELSON. If you sold it to him at 6?

Mr. WADE. Sold it to him at 6.

Senator BRISTOW. I understand; and the bank discounts that paper and uses it as it would any fund?

Mr. WADE. Yes, sir; the only way now we could discount a note at the banks is by dealing with the fellow we discount with just to that extent. We take from him the amount that we discount.

Senator NELSON. Take the interest in advance?

Mr. WADE. Yes, sir.

Senator BRISTOW. You spoke, when Senator Hitchcock, I think, was interrogating you, of the fictitious reserve. What do you mean by "fictitious reserve" in referring to the plan suggested by Senator Hitchcock?

Mr. WADE. I do not remember making that statement.

Senator BRISTOW. You used the term "fictitious reserve." I wondered at the time just what you meant by it.

Mr. WADE. If you would tell me the whole interrogation, I think I could answer your question.

Senator HITCHCOCK. Was it on the occasion of my questions relative to currency that might be furnished by the Government of the United States?

Senator BRISTOW. Secured by bonds.

Senator HITCHCOCK. No. I suggested for your consideration a plan that the Treasury of the United States might furnish currency to the banks or to currency associations, and it might protect those notes by selling bonds and then procuring a gold reserve. I think you termed it fictitious reserve. I am not sure as to the language.

Mr. WADE. No. In that connection I said the 2 per cent Government bonds were maintained on a fictitious credit and not on a real credit as to the market value of those bonds——

Senator NELSON. That is the way I understood it. He meant the 2 per cent bonds at a fictitious credit, because they were available for banking, and without that they would not be worth their par, drawing only 2 per cent interest.

Senator BRISTOW. I do not know just what Mr. Wade had in his mind, but Senator Hitchcock was speaking of the Federal Government issuing to the bank that money and the Federal Government placing behind that currency 50 per cent gold reserve, similar to the system which we now have in regard to greenbacks, and it was in connection with that discussion that the term "fictitious reserve" was used. I did not understand just what you had in your mind, and that is what I wanted to bring out, what you meant by the fictitious reserve, because it seemed to me that it was a better reserve than had been suggested up to that time.

Mr. WADE. I think you probably must have misunderstood my answer, or I must have answered not understanding the question asked.

Senator BRISTOW. Possibly you used some other word than "reserve." It might have been a "fictitious value" as to bonds.

Mr. WADE. The market value of the bonds.

Senator NELSON. I understood it as referring to the 2 per cent bonds.

Senator BRISTOW. Another remark which struck me as very interesting, which has not a direct bearing and still has an indirect bearing on the subject, was when you spoke of Marshall Field borrowing money of a railroad which had made the business of Marshall Field.

Mr. WADE. Contributed to the development of Marshall Field's business.

Senator BRISTOW. The way you used the terms at the time indicated that you believed that the railroad had been responsible for Marshall Field's success, and I wondered just what you meant by that.

Mr. WADE. I was trying to illustrate, in answer to a question of Senator Nelson, I believe, that it was perfectly legitimate for a national bank in New York or in San Francisco or anywhere else to loan on call the money of its depositors secured by bonds and stock.

Senator NELSON. Collateral.

Mr. WADE. Collateral. And while it was perfectly legitimate for them to loan on call or on time its money on collateral notes, secured by stocks and bonds not only of railroads and manufacturing industries, it would not be the class of security that should be put behind Federal reserve notes. That is what I was trying to illustrate and what I meant by the railroad contributing to the development of Marshall Field's business. The building of any railroad into any community contributes to the commerce of that community.

Senator BRISTOW. Gives it commercial facilities?

Mr. WADE. Yes. It permits the transportation of all the products of the land, and it sends back the articles that are purchased from the sale of those products.

Senator BRISTOW. You would not say that the railroad made that community, any more than you would say that the community made the railroad?

Mr. WADE. Oh, no; the one contributes to the development of the other.

Senator BRISTOW. The two work together.

Mr. WADE. And therefore to attempt—which the question rather led me to believe was in that direction—to say that you should only loan or should make any discrimination in loaning on the railroad stocks and bonds, or the manufacturing corporation stocks and bonds, or the securities of a commercial establishment, or improvements built upon land for the purpose of creating factories, would be a mistake. But that was not the kind of security that we are advocating to put behind Federal reserve bank notes.

Senator NELSON. I would be very glad if the committee would hear Mr. Chapman. There are some questions that I should like to ask Mr. Wade here, but Mr. Chapman, from Minneapolis, president of the Northwestern Bank, is here, and is a member of this committee, and I should be very glad if you would give him a hearing, in order that he may go home this evening.

Senator POMERENE. I also would like to ask Mr. Wade a few questions.

The CHAIRMAN. If there is no objection, Mr. Chapman will be heard by the committee.

Senator NELSON. Mr. Wade wants to go home, too.

Mr. WADE. I wrote a man in New Hampshire and one in New York to meet me in New York to-day. I telegraphed that I would be there to-day.

Mr. CHAPMAN. Finish with my friend, Mr. Wade. I do not go until 6.45.

Mr. WADE. You could finish with me in a few moments.

Senator NELSON. I will waive my questions to Mr. Wade.

Senator SHAFROTH. I intended to ask him one or two questions, but I will waive mine.

Senator POMERENE. In view of one matter to which he addressed himself, I have one question, and for that question it will only take a few minutes, if you have no objection.

The CHAIRMAN. Proceed.

Senator POMERENE. I assume that it goes without saying that the success of the plan embodied in this subject depends largely upon the extent to which the banks of the country avail themselves of its privileges?

Mr. WADE. Naturally.

Senator POMERENE. And the same may be said of the plan as amended by the committee of the American Bankers' Association?

Mr. WADE. Naturally.

Senator POMERENE. You called attention yesterday to the fact that in certain of these regions which it is proposed to lay out that if 10 per cent of the banks, and perhaps more accurately speaking, 10 per cent of the capital in that region should fail to avail itself of the privileges contained in this measure, they could defeat the purpose of the bill or the legislation. I understood you that way, did I not?

Mr. WADE. Yes, sir.

Senator POMERENE. If the proposed plan became a law; that is, if the proposed plan as amended by the bankers became a law, and 10 per cent of these bankers with banking capital should refuse to avail themselves of the privileges of the bill, it would very seriously embarrass the scheme. Is not that true?

Mr. WADE. No. In the first place, I said one-tenth of the banks that could be selected in any district or division of States, if they did not go in, would make it impossible to organize 12 reserve banks, because the remainder of them would not have sufficient capital to create a capitalization of $5,000,000 multiplied by 12 or more. If you adopted the suggestions that we have made here you would reduce the number of reserve banks to three or five, and therefore reduce the capital to be gathered together, just as 3 or 5 is to 12, and you ought not, in my judgment, in the initial stages of banking and currency reform, to attempt to create so many reserve banks at one time. If five proved to be successful, there is nothing to prevent you from extending it later if it is found to be practicable.

Senator POMERENE. The general purpose—I am speaking now of the amended scheme of the American Bankers' Association—is practically the same as the purpose of the orginal bill?

Mr. WADE. Our general purpose, gentlemen, is to help the Government of the United States to create a sound banking plan that can be workable and that can be put through in a practicable way.

Senator POMERENE. Suppose that either the orginal plan or the the amended plan should be adopted, and 10 per cent of the national banks would fail to go in, would not that materially hamper the success of the system?

Mr. WADE. No; I think not.

Senator NELSON. Let me suggest to you if you will allow me: It might, if amended, be so practicable that many State banks would go in to make up the deficiency.

Mr. WADE. I will tell you why it would not, in my judgment. Take, for instance, the New England States. If I remember it correctly, the total capitalization of all of the national banks in the six New England States is $105,000,000. If they did come in you could have two reserve banks in the six New England States. In the Eastern States, roughly speaking, there are $337,000,000 of capital. If they all come in you could have six reserve banks, because you would have $300,000,000 capital to draw from. But if half of the banks in New England did not come in, and half of the banks in the Eastern States did not come in, there would be nothing left than to try one reserve bank in each of these different districts; and the reason I said one-tenth of the banks would be that if one-tenth of the national banks I could name would not join, then you would only have capital enough remaining to have one reserve bank. The smaller institutions I do not believe are going to flock into this reserve association, because I do not think they will get the benefit from it that would justify them in doing so.

Senator POMERENE. If the Congress should decide to provide for 12 regional banks, in your judgment it would be necessary to have the national banks go in in order to make it a success?

Mr. WADE. Yes; I think so.

Senator POMERENE. That being so, I wish you would point out why, in your judgment, Congress ought not to say to these banks, if it is going to adopt this scheme, "You shall go in"? I am speaking of national banks now.

Mr. WADE. You mean compulsory, without representation?

Senator POMERENE. Yes.

Mr. WADE. I thought I covered that very fully yesterday, Senator. I would only be repeating myself.

Senator POMERENE. The point I am trying to bring out is this: That if it were decided to make 12 regional banks, and you did not compel them to go in, then, necessarily, it would fail, according to your theory?

Mr. WADE. Yes, sir; if they did not come in.

Senator POMERENE. If they did not come in. Now, you have stated that you came here——

Mr. WADE. Let me answer you further, Senator, before you ask me that further question?

On the other hand, if you keep this bill in its present form, with the clause compelling the national banks to go in or go out of business or out of the national banking system, I then do not think you would accomplish your purpose; but I do believe that you will drive some of the very best national banks out of the national system by sending them into State systems, where they can get all of the benefit they can now get by doing a banking business.

Senator POMERENE. Your answer is dealing with prophecies rather than with facts.

Mr. WADE. Absolutely so. I do not pretend to say who will come in or who will go out. I am giving my opinion.

Senator POMERENE. I saw a statement the other day that if this bill should become a law they would surrender their franchise or charter and incorporate under the State banking laws.

Mr. WADE. Yes, sir.

Senator POMERENE. Is it your belief that that would be done to any material extent?

Mr. WADE. I think it would, Senator, I am sorry to say. But I believe that the banks would have to look to their own interests and to the protection of their own stockholders, and not turn over 10 per cent of their capital and 50 per cent of their reserve money to become stockholders in a corporation the stockholders of whom would have no voice in its management or direction.

Senator POMERENE. That is discussing another branch that I do not care to develop just now, although I have no objection to your answer at all, of course.

The statement was made here yesterday that there were something over 25,000 banks, I believe, in the country, and about 7,000 of them—I am not giving the exact number——

Mr. WADE. That is approximately correct.

Senator POMERENE. About 7,000 of them were national banks; so that you have this bill as presented to the Congress making it obligatory on 7,000 of the banks to go into this scheme, leaving it optional with the other 18,000, and you here largely represent the 18,000.

Mr. WADE. No, no; I represent myself. I can not do that.

Senator POMERENE. Well, you are speaking in behalf of the State institution.

Mr. WADE. Speaking as an officer of a State institution—put it that way.

Senator POMERENE. Yes. So that, so far as you are concerned and your bank is concerned, you have no objection to this bill——

Mr. WADE. I am also a national banker, you know, too.

Senator POMERENE. I am speaking of you as a State banker, now.

Mr. WADE. No. Speaking as a State banker, it would not make any difference to us, because you could not force us to do anything.

Senator POMERENE. And you still have the opportunity to avail yourself of the provision?

Mr. WADE. Yes, sir. But, speaking as an American citizen, I think it is improvident; I think it is a mistake; I think it is un-American; I think it is unjust to pass a law compelling these banks to subscribe to this stock or go out of a system that they have helped to build up.

Senator POMERENE. Well, if the success of a system is to depend upon whether we shall compel them to do a thing or to leave it to their discretion to do it, would you not have a good deal of misgiving about the success of it if you had to depend entirely upon the voluntary duty of certain institutions?

Mr. WADE. No. But if Congress can not draw a bill that will be so attractive in its operation, so practicable in its working, without forcing the banks to come in, then I think Congress would make a mistake.

Senator POMERENE. Speaking for myself, I want this bill to be so attractive that they will all want to come in; but at the same time it is my present judgment, and I state this with an open mind, that after we make it as attractive as it can be made they ought to be compelled to go in.

Senator O'GORMAN. The national banks alone?

Senator POMERENE. The national banks alone. I think it ought to be made so attractive, however, that they would all want to come in. If there are any changes to be made in that respect I would like to hear what they are.

Senator REED. There would not be a bit of difficulty in getting them in if you make it attractive enough. There might be some question about how the people of the country would receive it.

Senator POMERENE. I mean by that I doubt the wisdom of providing for a system and then letting individuals say whether they will abide by it or not.

Senator SHAFROTH. You had better let the witness go, or somebody else will get to asking him questions and he will not get away at all.

Mr. WADE. I am very much obliged to you, gentlemen.

STATEMENT OF JOSEPH CHAPMAN, VICE PRESIDENT OF THE NORTHWESTERN NATIONAL BANK, MINNEAPOLIS, MINN.

Mr. CHAPMAN. Mr. Chairman and gentlemen of the committee, I have a very small thing to call to your attention, and I will do it just as briefly as possible. It is in the section of the bill which says "at the present time to permit or in times of emergency require Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks."

At a meeting of these bankers in Kansas City some time ago, where they were discussing agricultural matters, Mr. Jordan, of Pettis County, Mo., one of the real assets of that county in Missouri, made this statement. He said he was talking to a farmer and he said:

John, do you test your seed corn?

The farmer replied:

Certainly not. I don't believe in any of these new-fangled ideas.

Mr. Jordan said:

I want to tell you something. Every farmer tests his seed corn, either in the seed box or in the field.

I take it that the object of this meeting is that we want to test out this bill and see that when we get it planted out in the field whether it is really going to germinate and grow into something useful to the American people.

I want to call your attention to that clause, "or in times of emergency require," which we ask to have stricken out. I would like to be informed, for one, if there is in any civilized country in the world or ever has been any means devised by law to compel any man to loan money to another. In the medieval times history says that they used to boil the Jews alive in oil and torture them to try to force hose men to loan them money.

Senator REED. Did they get it? [Laughter.]

Mr. CHAPMAN. But it was impossible. They could confiscate their property, but they could not get a loan unless the Jews were willing to loan the money.

Now, gentlemen, times have been changed very much in free America along that line. We have never considered it possible to force a man to loan money to another. That clause in the bill, whether it is constitutional or not I am not lawyer enough to say, but that it is un-American and uncivilized is absolutely correct. It harks back to the stone age, when a man went out with a club and took what he wanted.

Senator O'GORMAN. What are the objections to that proposed system?

Mr. CHAPMAN. We want that eliminated, and have the clause, Senator, to read:

to permit Federal reserve banks to loan.

I will show you the reason why that will accomplish exactly what this reading at the present time will, with the objectionable matter left out.

In Minnesota Senator Nelson has a farm. It would be just as proper for the State Legislature of Minnesota to pass a law appointing a committee of seven citizens of Minnesota whose duty it should be to require or to compel Senator Nelson to loan his teams and his harvesting machinery to his neighbor when his neighbor was taking in his crop. It is just as reasonable to compel Senator Nelson to loan his teams and his harvesting machinery as it is to require or to compel one bank to give credit to another against its free will. I take it that none of you gentlemen considers the necessity of putting that in—that is, from a legal standpoint. It would appear to us that it is absolutely illegal and un-American, as I said before. What will the objection be to that bill without that clause in it? That is what interests us.

In the bank with which I am connected we have over 9,000 checking accounts. Of those, over 50 per cent are accounts of $100 or less. We loan those people $100 or less. We look them up just as carefully and are glad to extend the credit to those people just as much as we are to loan a corporation or a firm $100,000 or $500,000, which is the most we can loan. There is no law that requires us or compels us to loan that money. That is what we are a bank for. That is what our business is, to loan that money.

Senator Hitchcock, I think, yesterday or the day before spoke about the continental banks in Europe and compared them to these 12 regional banks. There certainly is no law requiring those continental banks of Europe to discount the paper one for the other. Yet they do it. They do it because of the law of supply and demand. They do it because there is money in it for them to do it, and that is what the success of these regional banks is going to depend on—not on any force which will compel them to do it, but for the same reason that prompted Robert Morris to loan money to the Continental Army to carry on the war. Nobody forced him to loan that money; nobody forced the national banks to come into existence and buy those bonds. These gentlemen do it willingly and gladly. And, gentlemen, if you will leave that phrase out of that bill you will accomplish more in getting a friendly attitude toward all of the

banks of the United States and toward your purpose in establishing this bill than you will by including in it something that is absolutely unnecessary to the working success of your plan and something that may be so unconstitutional as to absolutely make your whole law invalid and void.

That is about all I care to say on that subject. I am willing to answer any questions you gentlemen may have to ask me.

Senator NELSON. I would like to ask a few questions. You have one of the largest banks in Minneapolis, and I would like to have you tell this committee what you know about farm loans, real-estate loans on improved farms, and how you look upon that kind of loans and that kind of security. I know you are familiar with the subject, and I know the committee will be glad to hear you.

Mr. CHAPMAN. Well, sir, as a national banker, I am not familiar with the loans, because our national bank can not, by law, make them; but for years I have been an officer of the Minnesota Bankers' Association, an association of about 1,000 banks. The national banks in that State, outside of the reserve cities, have talked this matter over, and they are anxious to have the privilege of loaning part of their resources on first farm mortgages loaned on a conservative valuation.

Senator NELSON. Of how much, 50 per cent?

Mr. CHAPMAN. Forty to fifty per cent; not over that.

Senator NELSON. How do they regard that kind of paper—farm mortgages?

Mr. CHAPMAN. That paper is regarded as the best in the world, of its class. There is no better paper made than first farm mortgage properly made.

Senator NELSON. If a man came to your bank to borrow money on his note, you would rather have as security a good farm mortgage of that kind than the ordinary class of stocks and bonds—outside of Government and State bonds, I mean?

Mr. CHAPMAN. Outside of Government and State bonds, if I knew that loan was safely made, I would just as soon have it as any railroad bond ever made. But not in a reserve city, Senator.

Senator NELSON. No. Your idea, then, is, Mr. Chapman, that the privilege of loaning on farm lands or, rather, the privilege of loaning on real estate, should be limited to farm land?

Mr. CHAPMAN. That is right.

Senator NELSON. On improved farms, and should be limited to what are classed as country banks?

Mr. CHAPMAN. Yes, sir.

Senator NELSON. Not banks in reserve cities, central reserve cities?

Mr. CHAPMAN. No, sir; I would not give them the privilege.

Senator POMERENE. Why not?

Mr. CHAPMAN. Because we act as reserve agents for 1,000 banks. We must keep our assets in such shape that we can take care of a sudden call. A farm mortgage is not necessarily a liquid asset.

Senator NELSON. Is it not very nearly the unanimous feeling among national banks, outside of the Twin Cities, that they are in favor of amending the law so that they can loan on real estate farm mortgages?

Mr. CHAPMAN. Yes, sir; I should say so.

Mr. NELSON. It is the universal sentiment.

Senator REED. In Minnesota?

Senator NELSON. In Minnesota.

Senator REED. There has been mentioned several times the question of whether the Government could compel one of these Federal reserve banks to transfer money to another, and the question of the constitutional rights that was raised has entered into it, and you likened it in your illustration to Senator Nelson's farm, where the Government would provide that a board of directors should compel him to loan his farm tools and machinery. Let me call your attention to this: No bank exists as a matter of right. There is not a single bank in this country but what exists because the law provided the plan for its existence. If the Government were to provide a system of banking, and in the law creating the system it was to provide that every bank coming into the system should have certain privileges, they would have those privileges, would they not?

Mr. CHAPMAN. Yes, sir.

Senator REED. And if it provided that it should also assume certain duties and obligations, they would have those duties and obligations, would they not?

Mr. CHAPMAN. Yes, sir.

Senator REED. And if they failed to respond to the duties and obligations, the Government would close their doors, would it not?

Mr. CHAPMAN. Yes, sir.

Senator REED. Do you not think that disposes of the constitutional question?

Mr. CHAPMAN. Absolutely not—not unless you want to go back to the times when they boiled the Jews.

Senator REED. I am talking about constitutional questions. I am not talking about boiling Jews; I have always been opposed to that. [Laughter.] You have already answered about the farm mortgages, which is illuminating; and I want to ask you this: In the large banks, even in these big cities, do they not have an organization that is pretty closely affiliated with them to take care of farm loans?

Mr. CHAPMAN. Yes, sir; we have a trust company.

Senator REED. Right in the same building?

Mr. CHAPMAN. No, sir; adjoining the building—but there is a connecting door. [Laughter.]

Senator REED. Does it have the same officers?

Mr. CHAPMAN. No, sir.

Senator REED. It has some of the same officers?

Mr. CHAPMAN. None of the same active officers. No officer of the national bank is connected in any way with the making of those farm mortgages.

Senator O'GORMAN. The same interest controls them both?

Mr. CHAPMAN. Yes, sir.

Senator REED. Somebody controls them.

Mr. CHAPMAN. Yes, sir.

Senator REED. There is one man there, I take it, and he is probably the president of the bank?

Mr. CHAPMAN. Yes, sir.

Senator REED. So that even the large bank in reserve cities does not want to let go of that class of business, but he wants to keep it in a separate till?

Mr. CHAPMAN. He wants to keep it separate from his demand obligations, from where they do not belong.

Senator REED. What do you think about the proposition, or the plan, that was suggested by Mr. Wade this morning of these mortgages taken by a reputable firm being a pretty easily convertible thing when we want to convert them?

Mr. CHAPMAN. I should say that that would depend absolutely on the integrity and the ability and the experience of the company making these loans.

Senator REED. That is pretty nearly true of every bank; your bank depends on that.

Mr. CHAPMAN. Yes, sir; but every bank does not sell paper and does not sell mortgage notes to individuals of that kind.

Senator REED. But I think the proposition that the business must be properly conducted goes with every bank?

Mr. CHAPMAN. Yes, sir.

Senator REED. I want to ask you this, whether you agree with the statement that was made here by Dr. Johnston, that the money is flowing out of the Bank of France now because of the war conditions, that the people are drawing the money out of the Bank of France and putting it into hiding, thus reducing its assets. Do you know whether that is the situation?

Mr. CHAPMAN. I only know what I read, and that is to the effect that—of course we must take into consideration that the average peasant of France is a wealthier man than the average citizen of this country; that is, the average business man of America. They have more money in the banks. The Frenchman is naturally thrifty. The reason for that is that when this Balkan War was closed and there were securities offered at a high rate, Mr. Thrifty Frenchman wants to be ready to get it; he wants to have his money where he can get it and sell it and make more money on it.

Senator REED. Could he not draw a check on the bank for it?

Mr. CHAPMAN. He might.

Senator REED. Do you agree with Dr. Johnston that this war condition having obtained, the money is being drawn from the Bank of France?

Mr. CHAPMAN. Yes, sir; it is due to the war condition; certainly.

Senator REED. Do you think that that comes because of the fact that he is hiding his money or investing his money?

Mr. CHAPMAN. I think both.

Senator REED. Both?

Mr. CHAPMAN. Yes, sir; he is getting ready to invest his money.

Senator REED. So that the theory that has been advanced here, that if the bank is entirely separate and distinct from the Government, the bank stands alone, like a Rock of Gibraltar in time of war, does not seem to be quite borne out?

Mr. CHAPMAN. Absolutely; there is no question of the integrity of the Bank of France to-day.

Senator REED. I am not talking about the ability to break it, but the question of inspiring this implicit confidence that remains through all the terrors of the long war and leave the bank absolutely standing out in the sunlight untarnished and unharmed.

Mr. CHAPMAN. I do not think that. In Europe the banks are coming out of this stronger than ever——

Senator REED. Do you think the Frenchman is drawing out all his money from the Bank of France to-day any slower than he would be

drawing it out under the same circumstances if that bank was actually owned by the French Government? France is not in any danger.

Mr. CHAPMAN. That is a pretty hard question to answer. I do not know about the diplomatic conditions in Europe; I do not know whether France is in danger or not.

Senator NELSON. I have understood that it is not as common for the peasantry of France to deposit their money in the bank as it is in this country. They like to keep it at home. That is the custom of the country.

Senator SHAFROTH. That is the reason it takes a larger circulating medium for that country.

Mr. FORGAN. All of the peasants of France that have money in the bank also have a little pile besides, generally.

Senator SHAFROTH. France also has a limitation as to the quantity that can be deposited there by one individual.

STATEMENT OF ROBERT F. MADDOX, VICE PRESIDENT OF THE AMERICAN NATIONAL BANK, ATLANTA, GA.

Mr. MADDOX. Mr. Chairman and gentlemen, I have been requested to bring to your attention the recommendation of the convention of bankers in Chicago in connection with the last paragraph of section 17 of the bill in regard to par points of checks. For your information I will read it.

Senator SHAFROTH. Section 17?

Mr. MADDOX. Yes, sir; that is, in our printed form. It was adopted at the meeting in Chicago.

The CHAIRMAN. Page 32.

Mr. MADDOX (reading):

> It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned. The Federal reserve board shall make and promulgate from time to time regulations governing the transfer of funds at par among Federal reserve banks, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, and may also require each such bank to exercise the functions of a clearing house for its shareholding banks.

The convention discussed that paragraph at length, and finally adopted as a recommendation, respectfully, that the paragraph be changed to read as follows:

> It shall be the duty of every Federal reserve bank to receive on deposit at par checks and drafts drawn upon any other Federal reserve bank.

From the last annual report of the Comptroller of the Curren y we find that of the 7,397 national banks in operation in the United States more than 2,000 were banks in small cities operating with only $25,000 capital and 4,706, or 63 per cent, had capital less than $100,000. It was largely the consideration of this great number of small national banks and the small State banks throughout the United States that undoubtedly prompted those in attendance at the recent convention to respectfully recommend the change in that paragraph of section 17.

The small banks of the country have performed and are performing a great service to the Nation. They encourage thrift in their com-

munities and facilitate trade; they are the kindergartens of commerce. Especially in the South and West these small banks have been of great benefit. In the spring they have made advances to the farmer which enabled him to pay cash for his supplies, and they are gradually emancipating him from the burdensome system of trading on long time, with its accompanying high prices.

In the operation of the smaller banks of the country the exchange received is a considerable portion of their annual profits. To make the regional reserve bank receive at par all checks drawn upon any member would, it is believed, in time force all banks in that district to cash at par all checks drawn in that district. The check deposited in the regional bank, drawn upon any member, would immediately be charged against the reserve deposit of such member, and thereby enforce its collection at par and eliminate from the member bank any possibility of collecting a reasonable rate of exchange. As the member bank would never know what amount of checks drawn upon it would be deposited in the regional reserve bank nor when they would be deposited it would force the bank to carry a large amount to its credit with the regional bank above the reserve required, for which the bank would receive no interest, and frequently require the member bank to ship by express at considerable expense currency to meet these checks which are drawn payable at the counter of the member bank.

As there are more than 25,000 banks in this country, of which only 7,372 are national, and the success of the new banking and currency bill must depend upon the cooperation of a large number of banks of all kinds, the importance of the proposed revolution in collecting checks and the enormous labor, expense, and risk imposed upon the regional reserve banks, together with the loss of revenue to a large percentage of the other banks, should not be underestimated.

As is generally known, the clearing houses in certain cities have, through mutual cooperation of banks in other cities, been able to work up a system by which checks upon certain banks and cities are now received at par. This has proven successful in a measure in the thickly settled sections of the country, especially New England. In other cities banks have cooperated in having their out-of-town items collected jointly through their clearing houses, thereby reducing somewhat the cost to the city banks.

In New York City the clearing house has been working on a plan of cooperation for a par basis with outside cities for some time, but notwithstanding the large number of banks which carry accounts in New York City, they have been able to get only the banks in the following number of cities in five States to remit at par: In New York, 43; in New Jersey, 34; in Connecticut, 14; in Rhode Island, 9; in Massachusetts, 74; while in 15 States the banks will not remit at less than one-tenth of 1 per cent, and in 30 States the banks find it necessary to charge one-fourth of 1 per cent. It is therefore clearly shown that the question of exchange charges is one to be regulated by local conditions, and not one which warrants at present national control.

The development of the above-mentioned systems of collecting checks is progressing satisfactorily to both the city and the country banks, and as its operation is based upon voluntary cooperation it is likely to continue. We believe that after the regional banks are organized they can reach some agreement with the member banks in

regard to a uniform rate of exchange which will be mutually satisfactory.

While the collection feature of the proposed bill may be considered favorably by some of the large cities, we do not believe the country is ready for a national enforcement of free collection of checks, as proposed in the present bill.

At a recent group meeting of bankers in a prominent southern State resolutions were adopted, from which I quote the following:

Resolved, That if paragraph 6 of section 17 of the proposed bill is intended to cause universal parring of all checks and drafts and thereby destroy the present source of income country banks derive by making reasonable charges for collecting and remitting to cover checks and drafts, that the said provision is pernicious and will result disastrously to the earnings of country banks.

Resolved further, That this question of exchange is a local question, involving different considerations in the several communities of the United States, and should not be regulated by national legislation.

Resolved further, That the forfeiture of exchange earnings would so penalize the State banks of ——— as to prohibit their becoming members, and that it would force country national banks to retire from the system, and thereby cause the financial power of the country to remain in the centers without relief to the country districts.

As the checks upon the small country banks are usually drawn by country merchants, who trade largely with their nearby wholesale merchants, a large majority of their checks circulate within a radius likely to be included in the Federal regional reserve district. In consideration of the trade of these country merchants, we have not heard of the city merchant seriously objecting to paying the small exchange charged by the city bank and never exceeding one-fourth of 1 per cent to reimburse it for the charge made by remitting by the country bank. I say reimburse it, but the city bank does not, as a rule, charge an amount which does reimburse it. The city bank allows its depositors to "bunch" their out-of-town items, and they are of course collected individually. The rate for remitting by the country bank being more on small amounts than on large.

In the city of Atlanta, for instance, the clearing-house banks collect through their clearing house a large amount of their miscellaneous country checks payable in Georgia, Alabama, and Florida. The average cost to the Atlanta banks to collect these items is $2.07 per thousand, while they only charge their customers $1.25 per thousand, showing a net loss of 82 cents a thousand. The operation of the par feature of the proposed bill would virtually mean that in order to collect every check in the United States at par a member bank would only have to open a reciprocal account with one other member bank in each of the Federal reserve districts.

We believe that there is now existing a most encouraging spirit of cooperation between the banks of the various cities and towns of the country, each willing to accord to the other every due consideration, and they are all working for the benefit of their communities and to the prosperity of the Nation.

The banks are now satisfied with the existing arrangement, and their patrons are pleased. Under such conditions, we believe the amendment we propose would be to the best interests of the regional reserve banks and satisfactory to the people. It virtually makes 12 par points, representing every section of the country, which would be all that is needed and furnish a sufficient basis of exchange at par. It would leave the Federal reserve banks, at least for the present,

free to perform the function for which they are most needed; that is, to control the reserves of the Nation and furnish to our people a wisely secured circulating currency receivable in gold.

Senator SHAFROTH. What does this cost that you refer to consist of?

Mr. MADDOX. I do not believe I quite understand you, Senator.

Senator SHAFROTH. I mean exchanges.

Mr. MADDOX. In dollars and cents?

Senator SHAFROTH. Yes.

Mr. MADDOX. You mean to the country at large?

Senator SHAFROTH. No; I do not mean the country at large. I mean what does each item amount to? Suppose I bring a check to you, and charge you me one-fourth of 1 per cent. You say that it costs the bank that much or perhaps a little more.

Mr. MADDOX. The city bank?

Senator SHAFROTH. The city bank. What does that cost consist of?

Mr. MADDOX. We take the check that we receive over the counter to-day at Atlanta. I will use Atlanta for illustration. It receives the check deposited by one of its customers on Valdosta, Ga. We send that check to Valdosta, and the bank in Valdosta will remit us an Atlanta exchange for $1,000, if that were the amount of the check, less one-fourth of 1 per cent. We have the use of that money for probably two or three days. But the city banks, as a rule, only charge their customers exactly what the country banks charge them for remitting the checks back to the counter from which they were taken and deposited.

Senator REED. Why should that bank make that charge?

Mr. MADDOX. It is just a source of revenue for them. They have to keep their money in Atlanta and frequently have to send it by express to the different parts of the country.

The CHAIRMAN. There is postage and clerk hire also.

Senator REED. I am trying to get at the reason. You are a banker in Atlanta?

Mr. MADDOX. Yes, sir.

Senator REED. I live in Kansas City. I go down to Atlanta and I give you my check for $1,000 upon my bank in Kansas City, and you give me $1,000.

Mr. MADDOX. Yes, sir.

Senator REED. I readily understand you have got to lose the use of that money until you can get it from Kansas City. You lose that much of your funds. When that check gets back to Kansas City, to my bank, my bank pays the face of it.

Mr. MADDOX. Certain cities of the country are recognized as par points. The city of Atlanta is one. The city of New York will take any number of checks at par. Take Kansas City and New Orleans and Louisville and Cincinnati and Baltimore and Chicago at par. If my bank can collect that check at par in any way it would charge you for it.

Senator REED. Why, in all instances, does the check not go back to the bank upon which it is drawn?

Mr. MADDOX. It does.

Senator REED. That bank proceeds to discount the checks?

Mr. MADDOX. No, sir. It is willing to pay out the currency at par value for the check over the counter, and it does it every hour of the day; but when I receive that check and see that it was drawn in Kansas City, that it was not a check on New York or Atlanta, it costs the bank in Kansas City something to maintain that balance in Atlanta, and therefore the bank in Kansas City charges a certain rate of exchange for furnishing me that piece of exchange instead of the currency.

Senator REED. Going back to the transaction between yourself and myself, you sent the check to my bank in Kansas City where I have an account now, and they send a draft to you upon New York. It is justified in making a charge to you for that draft, because it has to keep a large sum of money in New York and it is out that much interest; and that is the reason it keeps that account in New York. Does it not get anything on this account there?

Mr. MADDOX. Usually the New York banks pay 2 per cent interest on balances.

Senator REED. But that does not compensate it for money that it might get. It might get 5 or 6 per cent. I see. Then there is occasionally money actually shipped all over the country?

Mr. MADDOX. We do it. From Atlanta we have to ship it at large expense.

Senator SHAFROTH. Where you do not charge between points it is because they have correspondent accounts?

Mr. MADDOX. Yes, sir. The city banks never attempt to collect the exchange out of a check, but they can collect the par. All the banks throughout the country try to collect them from their customers as reasonably as possible, and we voluntarily make par points; and under the present theory, for instance, if New Orleans would be our regional reserve, we would have to keep money going to New Orleans all the time, and we would have to keep an excess there to meet the demand, and I would have to send currency there to meet it unless it was payable on the counter of my bank in Atlanta.

Senator SHAFROTH. Do you know how many par points there are in the United States?

Mr. MADDOX. I have no idea; but I think New York is in a better position to create par points, because of the large number of reciprocal accounts kept there, and the banks find it absolutely necessary to make these charges or they would not do it. It would be a serious handicap to the success of this measure, in my opinion, when you realize that 4,700, 63 per cent, of the national banks are operating with less than $100,000 capital—and that is an important part of a small bank's profit. In my State there are 600 more State banks than National banks, and they are mostly smaller banks. I suppose there are over 200 State banks, with $15,000 capital, which could not possibly come into this system.

Senator NELSON. What proportion of the $25,000 national banks have you?

Mr. MADDOX. There are only 13 in the State of Georgia, whereas there are 1,700 banks altogether. In some States there are banks operating with $10,000 capital. Under this proposed law no bank can come into the system with less than $25,000 capital.

Senator BRISTOW. You say it costs more in some regions of the country than in others?

Mr. MADDOX. Yes, sir.

Senator BRISTOW. Why should it cost more?

Mr. MADDOX. Because exchange on the leading cities is less available, and it is more necessary to express.

Senator BRISTOW. In what sections of the country is the expense heavy?

Mr. MADDOX. In certain parts of the South, when cotton bales are moving, and the cotton merchants are trading on Europe and in New England. It is necessary, in order for us to buy New York exchange, to pay a very large premium for it; and that applies in the different sections of the country. New York is the par point that America remits upon for all checks.

Senator BRISTOW. In some sections of the country the banks in one town charge more for the collection of checks than in other towns, do they not?

Mr. MADDOX. That is due to local conditions.

Senator BRISTOW. The cost is just the same?

Mr. MADDOX. It is just the same. It is for the same reason that one merchant in a town will sell goods at a much less price than another one will.

Senator BRISTOW. As far as my knowledge goes, the banks have the same rule governing these charges.

Mr. MADDOX. They usually have some agreement about it that will meet the conditions of the town itself.

Senator BRISTOW. But if in one town they make a charge and in another town they do not, that would indicate that it was not very important factor in the revenues of the bank, would it not?

Mr. MADDOX. There may be some special reason why that bank particularly wants to encourage a certain means of collection from a certain section, and do it somewhat as an advertising feature; but it does it at a loss, I think. The country banks are really entitled to some exchange, in my opinion, after these regional reserve banks are organized, and the country banks come in. If the regional reserve banks will make some equitable arrangement with the member banks for a uniform rate, I believe it will be less than the prevailing rate. I believe it is one-tenth of 1 per cent. It would be uniform throughout the regional reserve. Here in our bank, say, it would cost a man $6,000 to $10,000 a year if his checks were forced to be cleared at par. A small country bank——

Senator SHAFROTH. In the illustration of Senator Reed giving you a check at Atlanta on Kansas City for $1,000, you would send that check to New York, would you not?

Mr. MADDOX. No, sir. Of course there is a different system by which different banks collect their out of town checks, but I think any such amount as that, the banks would send it there. All the larger banks would.

Senator SHAFROTH. You having a balance in New York and the Kansas City bank having a balance in New York, they would offset each other?

Mr. MADDOX. That might be, if Kansas City was collecting at par. If that is the case, I would not charge the customer who came in with the check and wanted $1,000 clearance. The banks are all anxious to protect their par points as much and as liberally as possible for the accommodation of their customers. The other matter——

Senator HITCHCOCK. Before you leave that, Mr. Maddox, I want to ask you a question along that line. Suppose this provision should stand in the bill as it is, it would be easier for each bank to make these collections if there were a large number of reserve banks than if there were a small number, would it not?

Mr. MADDOX. I think not; for the reason that while a small number of regional reserve banks would necessarily include a little larger territory if there were 5 instead of 12, yet the bill says each bank shall receive on deposit at par the checks of any member of that district; in other words, one bank in the entire South must receive at par checks of every other member in the entire South.

Senator HITCHCOCK. These checks do not have to go through a remote center if there are a large number of regional reserve banks.

Mr. MADDOX. That is true.

Senator HITCHCOCK. If they had to go through a remote center would not that complicate the matter of collection somewhat rather than having more centers?

Mr. MADDOX. It would be a little longer distance from the remote center.

Mr. WEXLER. Instead of a reserve bank they would have branches.

Mr. MADDOX. I believe it is contemplated that the reserve bank would have branches. Of course, we do not know how largely that branch feature would be developed.

Senator HITCHCOCK. Have you any of showing what per cent of profit come back, we will say, to a bank of $75,000 capital, from charges upon the collection of checks.

Mr. MADDOX. I am not prepared to answer that. I should say, roughly speaking, 20 per cent. Mr. Wexler, would that be out of the way?

Mr. WEXLER. That would depend upon deposits of the banks. I should think more than that. I should think nearer 35 to 50 per cent.

Mr. REYNOLDS. I might say that there is a vast difference in charges made for the collection of these checks in the different sections of the country. You take the northern and western banks in the small towns, and the exchange feature, the selling of exchange checks over the counter has dwindled down to almost nothing, whereas in the South, where Mr. Maddox is, I think you still maintain a fair rate of exchange on those items; so that while the South will get a very large revenue and income from this, in some other sections of the country it is very materially reduced.

Mr. MADDOX. It is purely a local matter.

Senator NELSON. Has not the practice grown up among banks to issue drafts in such cases without charge for their customers who are depositors in the banks—those who do business with the banks as depositors—without exchange?

Mr. REYNOLDS. A very large percentage of the banks in the North and Northwest do that, but not many in the South.

Mr. FORGAN. Before Mr. Maddox proceeds to the next subject, I would like to say that this subject—the exchange charges on checks—was more hotly debated than any other feature of the bill in our meeting at Chicago. It was brought up especially by the representatives of the small banks in the South, who protested most vigorously against that provision of the bill. I want to draw your

attention to that, because if you want to make the bill popular with the smaller banks of the South, you will find that that is the prominent sticking point that they are objecting to.

Mr. REYNOLDS. I think, if I may, I can give you a little idea as to what this means in dollars and cents, as one Senator here suggested. By quoting from an average of perhaps a dozen letters that I have received from southern correspondents bearing upon this subject, as I recall these letters, and I should say offhand, without having gone over the figures to justify it, that the banks from which I heard would have a capital averaging perhaps $150,000 apiece; and in their letters protesting against this clause being inserted in the bill, the amounts of the loss that each of these bankers claimed their banks would incur in event of its passing ranged all the way from $7,000 to $20,000.

Senator SHAFROTH. A year?

Mr. MADDOX. A year.

The CHAIRMAN. The volume of these exchanges as shown by circular 34, an abstract of the condition of the national banks, July 3, 1913, is that these checks and cash items run from $250,000,000 to $296,000,000, during the year, on daily account current.

Mr. MADDOX. Outstanding all the time.

The CHAIRMAN. Outstanding all the time, and it, of course, makes a very large business.

Mr. FORGAN. Right there I would like to give you a little bit of statistics to show you that this is no small matter that we are talking about. It might seem a small matter when the individual check is considered, but when I inform you that we have a department in our bank in which we keep more than 60 men doing nothing else but handling these checks, and that we handle 25,000 a day, and send them to their destinations from Chicago alone, and that Mr. Reynolds here must have at least 30 per cent more than that, you will realize the volume of business that is done along that line.

The CHAIRMAN. I would like to ask you, Mr. Forgan, in that case whether a large part of those are not checks passing through your bank for collection?

Mr. FORGAN. Oh, yes.

The CHAIRMAN. And would not those checks if they were on deposit on a Federal reserve bank be canceled at the Federal reserve bank, and therefore make unnecessary the sending of that check down to the correspondent and back again to be simply charged against him?

Mr. FORGAN. That could be done, but it would be very bad, as the banks would have absolutely no control of their balances, and that is what we are running across every day now. There is not a bank correspondent on our books that will permit us to charge $1 to their account until we have got their signature to a check or order telling us, "You are authorized to charge it," so we have to send every check on every correspondent to that correspondent and wait until we get back an order to charge.

The CHAIRMAN. It would, however, be an economic advantage, if it could be done?

Mr. FORGAN. If it could be done; but by doing it you complicate the management of each individual's business to such an extent that, for instance, he has no knowledge of what checks his customers are

drawing on him, and if his balance with his reserve agent is impaired by charging to him checks which are not honored, and sending them back to him before he has provided for them, he has to keep a very much larger balance in order to protect his reserves against such charges, of which he knows nothing until after they have been made.

The CHAIRMAN. But the premises upon which you proceed in the case of a Federal reserve bank which dealt along with banks of a qualified class as members of a Federal reserve bank would be a different premise from that which now forms a just basis upon which an objection would be made by a correspondent bank and yourself.

Mr. FORGAN. I think not, because the reserves would be kept by the Federal reserve banks.

Mr. REYNOLDS. By way of completing the record with reference to this and giving you a little better idea, perhaps, as to the magnitude of this business, and which I hope to touch upon a little later, I will only say that in our institution we handled last year 19,000,000 checks and items of this kind, checks and items on points outside of Chicago and New York City. We have in one department 200 men doing this business alone. We have in transit in process of collection an average of about $13,000,000 the entire time.

When you undertake, Mr. Chairman, to have those go through the Federal reserve bank and cancel them as you suggest, you overlook one of the most important things necessary in the handling of checks of that kind, and that is that you do not know the genuineness of the signature of the maker of the check, nor do you know that he has the balance in the bank upon which it is drawn. If those things could all be put in the hands of the Federal reserve banks, if they could know that every check that comes through their office is signed by a genuine maker, and that the balance which that man would have in that particular bank upon which he would draw the check was sufficient, your theory would be a good one; otherwise it would be fraught with much danger.

The CHAIRMAN. I would like to have it appear in the record in this connection that if there were established 10 reserve banks, involving 27,000 banks, there would be 2,700 banks on an average in each of these 10 Federal reserve districts. Each one of these 2,700 banks would have its signature of record at its Federal reserve bank, and I take it also, if necessary, at the other Federal reserve banks. I am not talking about private checks—I am talking about checks sent by the members of the banks; and therefore when any one of these member banks draws a draft upon any other member bank or any member bank of another Federal reserve bank, the process would be that such checks going into the reserve bank No. 1 would be there canceled and sent as vouchers to member banks, who would be carrying deposits with such bank, and in like manner such bank would be itself credited with checks drawn on other member banks belonging to that particular Federal reserve bank. If, however, the checks were drawn upon a member bank of another Federal reserve bank it would be transmitted by the Federal reserve bank No. 1 to Federal reserve bank No. 2, and a like process of cancellation obtained, and therefore there would be an obvious economic advantage. I would be glad to have the record show in that particular that process is wrong.

Mr. MADDOX. There is just one thing I would like to add, referring to your comment of a moment ago: The convention recommended a substitute for that paragraph, to be that—

It shall be the duty of every Federal reserve bank to receive on deposit at par checks and drafts drawn upon any other Federal reserve bank.

In other words, any member in any district could draw a check on the Federal reserve bank in that district and that check would be collectible at par at any other Federal reserve bank, which would merely make, as I said before, as many par sections of the country as there were Federal reserve banks. I could draw a check on the reserve bank in which my city was located, for illustration, and it would be taken at par, and also all over the United States in any other Federal reserve banks.

Senator REED. Let me ask you if that would work out this way: The customer of a country bank desiring to pay a bill, say in Atlanta, and that country bank was a member of the reserve association or the reserve bank, and could go to that bank and draw his check to the bank and get a check from his bank drawn upon the Federal reserve bank, and use that check to pay his bills.

Mr. MADDOX. All over the United States.

Senator REED. And then that would avoid the payment of any exchange.

Mr. MADDOX. Yes, sir.

Senator REED. And if he drew his own check directly you want it so he would still have to pay no exchange?

Mr. MADDOX. That was the object of this provision.

Mr. FORGAN. That is the milk of the coconut. You have brought it all out right there; that is what the country banker objects to. I do not want to reflect on the country merchant, but the not infrequent practice of some country merchant is to issue his check on his own bank, knowing that it is going to be three days going and three days coming back, and he does not make his deposit until he figures it has had time to get back.

Senator POMERENE. Perhaps you ought to modify that and say "some country merchants."

Mr. FORGAN. I say "some"; I did not say all. That is the feature that the country bank objects to.

Mr. WEXLER. The customer of the country bank in paying a bill in St. Louis, instead of going to the counter of his local bank and buying a piece of exchange on St. Louis, as he ought to do, and remitting that to the merchant in St. Louis in current funds of St. Louis, he will draw his check on the local bank and send it to the merchant in St. Louis, and it takes that check probably three days to go and a day in St. Louis, and three days to come back, so that he need not have the money in bank to protect that check for several days while it is in transit; and further than that he is generally interested in the local bank, and he thereby enables the local bank to make a collection charge upon the St. Louis bank that received it from its customer, so that he is benefiting again by it.

I do not think you are going to get the small country bank into this system unless you eliminate this clause to which they object, as Mr. Maddox has said; and I think it is a proper subject to leave for adjustment and working out after your bank has been established.

I think it would be most wise and politic to do that, because, as I heard one banker say:

Even though the country perish, we must keep our collection charges.

Senator SHAFROTH. Is there not this advantage in drawing a check of that kind; that is, you get the receipt direct of the man to whom you are going to pay the money? He can do it by going to the bank, but it is a round-about way. That is the reason I pay my bills by check, because I write on each check what the bill is for and it answers for the receipt; and that is of great value to me, because I do not have a very big account.

Mr. MADDOX. There is one other thing, which I do not think is hardly necessary to dwell upon, but I can see the effect if every regional reserve bank were compelled to take at par the check on every member bank that it might encourage what we call "kiting." It would facilitate that very bad feature that some customers of banks practice. I will not go into that, because I do not think it is necessary at this time.

Senator WEEKS. Mr. Maddox, do you not think it would be well to explain just what you mean?

Mr. MADDOX. If a concern had a branch office in another part of the section of a regional reserve district and they both had accounts in the different towns where those branches were located, those checks would have to circulate at par, do you not understand, in any part of that district, and one branch could draw the check on his home bank and they could draw a draft on that member and they both would be taken at par, which is just keeping it in circulation until it came back and then the regional reserve bank would not know whether the check was good upon the issuing bank until it came back. There would be no way of the regional reserve bank knowing if those checks were good. In every bank in the larger cities—certainly in Atlanta, although I do not call Atlanta a large city—every day there are probably 25 or 30 checks thrown out of the bank that come through the clearing house that are not good. Those checks would have been cashed by the regional reserve bank and charged to our account, and in some instances those checks aggregate a large amount and it would have reduced our reserve by that amount, although we did not know that the man who drew the check did not have the money sufficient to his credit to pay it.

Senator REED. Would you object to this clause if it was amended so that it was the duty of a Federal reserve bank to cash without charge the check of any member bank?

Mr. MADDOX. If I get your question, it is what the provision is we are now complaining about?

Senator REED. Do you think that would be identical with the present provision?

Mr. MADDOX. Practically the same.

Senator REED. This reads:

And without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor.

Mr. MADDOX. That word "depositors" means members, because no depositor can be a depositor without being a member.

Senator REED. I see, we get back to the same place.

Senator BRISTOW. A moment ago there was an indirect criticism made on drawing a check for bills, and figuring on the time incident to the return of the checks, in order to prevent overdraft on the local bank, and when that check comes back, the man who drew it makes a deposit and not when it was drawn; instead of that, if he had to buy a draft and deposit that with the local bank, would not the local bank have the use of the customer's money before its obligation was met; but as it is now the country merchant has the use of the bank's money?

Mr. WEXLER. That is correct.

Senator BRISTOW. Why should not the merchant have the use of it as well as the banker?

Mr. WEXLER. We do not say that he should not, we are just simply stating the case.

Mr. MADDOX. The point is simply this, to boil it down, that the present system of collecting checks, while a little bit onerous upon the city banks—and they would benefit more than any other class by this bill—we believe, and our committee that considered this feature were nearly all city banks, but they sincerely and conscientiously believe in the interest of this bill that it would be unwise to put this burden upon country banks, or, rather, to withdraw from the country banks the profit that for years they have been accustomed to earn through exchange.

Senator WEEKS. Mr. Maddox, you have just said that this bill would be more beneficial to the city banks than to the country banks?

Mr. MADDOX. I said this provision.

Senator WEEKS. You said "bill."

Mr. MADDOX. I beg your pardon.

Senator WEEKS. You meant "provision"?

Mr. MADDOX. I meant "provision."

Senator REED. You think this provision has got to be limited, practically, to simple transactions between the reserve banks?

Mr. MADDOX. Yes.

Senator REED. That takes away one of the advantages claimed for the bill. It occurs to me, as we proceed, that the bill is something like I heard a young lady say about her good looks. She said she would be good looking herself if it wasn't for her nose, her eyes, her mouth, and her complexion. [Laughter.]

Mr. MADDOX. Gentlemen, our committee has conscientiously—and I happen to be a member of the committee that revised this bill, or rather suggested some of the resolutions in the committee, and worked harmoniously with the committeee—and I believe that we should work in the interest of the whole country in suggesting these amendments, and if there are any features of the bill that appear to favor one class of citizens, it was not the intention of the committee.

Senator HITCHCOCK. Mr. Maddox, you make no distinction in your objection between a check drawn by a country merchant drawn on one bank and a draft drawn by one bank on another bank, they both being members of the reserve association?

Mr. MADDOX. Yes. The provision is that any check of any member drawn upon any regional reserve bank shall be taken at par by all the regional reserve banks.

Senator HITCHCOCK. But a check drawn by one member bank upon another member bank shall not be taken at par?

Mr. MADDOX. No. A check drawn by one member bank upon another member bank may not be good, and the regional bank might cash the check for $10,000 when one member bank might not have it in another bank.

Senator HITCHCOCK. Are there any cases like that?

Mr. MADDOX. Frequently banks draw upon Atlanta a check where they have not sufficient funds. They probably expect to get them there, and maybe the train will be late, and sometimes they do it without any expectation of having it there, just to obtain circulation.

Senator HITCHCOCK. I supposed that individuals did that, but I did not suppose that banks ever did.

Mr. MADDOX. I have heard of it having been done, have you not, gentlemen?

Mr. WEXLER. Yes.

Mr. MADDOX. The next feature, gentlemen, if you have finished with that, to which I would like to call your attention, is the feature of savings banks in the national banks or the national banks doing a savings-bank business. When the convention met in Chicago, the bill stood as it appears in the printed report——

Senator BRISTOW. Before entering upon that, there is another feature I would like to inquire about. If a merchant, we will say, here in the city of Washington is making a remittance to New York, and he sends his check on his local bank here to New York, the party to whom the check is drawn in New York deposits that check in his bank. Is that check cleared there in New York and charged to the account of the bank correspondent, or does it always come back to the city from which it was drawn?

Mr. MADDOX. If I catch your question, I will repeat it so that I may be sure that I did: A merchant in Washington will send to a merchant in New York a check on a Washington bank, the merchant in New York deposits it at his New York correspondent, and that New York correspondent will forward that check to his correspondent in Washington, the same as a check drawn to a merchant in Washington, and charged to that bank's account in Washington; but if it happens not to be a check on the Washington bank it might or might not charge it—as far as Washington and New York are concerned. I have no doubt that all Washington checks are taken at par in New York, and the exchange feature does not enter into that transaction at all.

Senator BRISTOW. That is what I wanted to know, whether the bank simply charged it in New York to the account of the bank here and then the bank was out nothing.

Mr. WEXLER. I would like to say that that practice does not generally prevail. For instance, we have a large number of correspondents and receive a great many accounts on those banks that keep accounts with us, and none of them permit us to charge those checks to their account. We assemble all checks on a particular point during the day and at night they are put into a letter and listed, and they are sent to the particular point, to our banking correspondent in that town. He collects them from the various banks in the town and sends us the check to cover; that is the usual procedure.

All banks endeavor to get their bank correspondents to permit them to charge these items up to them, and in former years there was considerable of it done, but nowadays the banks will not let us do it; they insist that we send the item to them and let them challenge the signature and ascertain if the check is good, and then send us their exchange, usually on ourselves, if it is our correspondents, or sometimes on New York, Chicago, St. Louis, or Kansas City, or wherever it might suit their purpose.

Senator HITCHCOCK. Mr. Wexler, is that true, of a draft drawn upon one bank by another bank?

Mr. WEXLER. Yes; if, for instance, a bank in the city of Shreveport sends us a check on the bank in Monroe for the credit—that is, for the Shreveport bank—we have got to take that check just the same and send it up to Monroe and collect it.

Senator HITCHCOCK. An individual check, you are speaking of?

Mr. WEXLER. I am speaking about a bank check. For instance, the bank at Shreveport, La., has a credit in Monroe which it desires to get out of there and get into a reserve city, like New Orleans. I am its correspondent—that is, of the Shreveport bank—and it draws a check on Monroe and sends that check to me at New Orleans. I in turn send it to my correspondent at Monroe, and he mails me New Orleans exchange, or Chicago exchange, or St. Louis exchange, or New York exchange, which we call current funds, and then the Shreveport bank has the money to its credit with me in a reserve city. The Monroe bank charges us at the rate of $1.50 for collecting that item, and we in turn charge the Shreveport bank the same—$1.50—that we have been charged by Monroe for collecting it.

Senator HITCHCOCK. Suppose both of those banks have accounts with you, why could not you credit one and charge it to the other?

Mr. WEXLER. Because they won't let me; in the first place, because they do not know how many checks are out, and they do not want to impair their reserve; and another thing is that they want the checks to come back to their counter so as to ascertain whether it was good or not; it may not be good.

The CHAIRMAN. Suppose the Shreveport bank sent you at New Orleans a check on the Monroe bank and it went to the Federal bank; you would take it and put it right in the Federal reserve and take credit, and the Federal reserve bank having an account with the banks in that region, would then charge the Monroe bank and credit you, and you would credit the Shreveport bank, and the transaction would be economically completed there, without this sending back and forth; and therefore it would be an economic saving in the matter of time and postage and clerk hire and use of the money?

Mr. WEXLER. Absolutely, and it would be extremely desirable.

Of course the next step would be that the regional bank would send the item to Monroe, which it would have to do for verification of the signature and to ascertain whether it was good, and the credit it would give you would be subject to being charged back if it was not good.

The CHAIRMAN. That would be the result in any event.

Mr. WEXLER. That would be a step in the right direction. It would be economy if that could be done, but that would not affect the various collections of the small country bank.

Mr. MADDOX. The question of exchange is more or less local, and it is very difficult to pass one rule that would apply all over the country.

The CHAIRMAN. The present system would go on in any contingency, I take it?

Mr. MADDOX. Yes.

The CHAIRMAN. Because all of these banks have at present and will continue to have large accounts with other banks where they keep their reserves?

Mr. MADDOX. Yes, sir.

The CHAIRMAN. At present the country banks keep 10 per cent more than the legal reserve now?

Mr. MADDOX. Yes, sir.

The CHAIRMAN. I believe you will concede that to be the case?

Mr. MADDOX. Yes, sir.

The CHAIRMAN. And that that system would still go on; they would not be obliged to send their remittance through the Federal reserve bank; they would still have the opportunity of using the present system, which is possible in the way of exchange.

Mr. MADDOX. But if the amendment stands as at present, any check of any member, you understand, will come into the reserve bank at par some time, very likely.

Mr. REYNOLDS. Mr. Chairman, I think I can clarify that just a bit for the members of the committee by making this statement: In its practical application the parring of checks, as the chairman has indicated, would be decidedly to the advantage of the city banks; it would at the cost of present income of the country bank; that is exactly what it would mean when put into force. It would, however, as the chairman has stated, make available for reserve purposes very much more quickly a very large amount of money, and it would be an enormous economic saving in the collection of the funds.

The CHAIRMAN. It would relieve approximately a part of the present volume of $250,000,000 to $298,000,000 which are daily current in these exchanges.

Mr. REYNOLDS. If the national banks would all join the association, I should estimate it would relieve 70 per cent of it.

Mr. WEXLER. I would advise you to leave it out of the bill, because these country banks will not come in.

The CHAIRMAN. I think they will.

Mr. WEXLER. I have talked to 100 of them, because I advocated that it should remain in the bill—that it was in the direction of economics. I tell you they will not come in, and I would advise leaving that for adjustment after you get the banks started.

Senator POMERENE. I think they would come under your persuasive argument.

Mr. WEXLER. That was when they said they would rather see the Nation perish than to lose their collection charges.

Mr. REYNOLDS. I agree with Mr. Wexler as to its practical application, though I want to be frank enough to have you understand that from my viewpoint it would be a decided advantage to my institution to have that remain in the bill, although for the very reason Mr. Wexler has stated there is a prejudiced opinion against it by the small country banks.

Senator BRISTOW. Mr. Chairman, you spoke of $200,000,000 or $300,000,000 being carried here as though it were a loss—as though losing the money. Who is losing the money?

The CHAIRMAN. The country.

Senator BRISTOW. Who, in the country?

The CHAIRMAN. The individuals.

Senator BRISTOW. What individuals are losing this money?

The CHAIRMAN. Those who are entitled to the active use of the money and who are compelled to carry it.

Senator BRISTOW. Who are they?

The CHAIRMAN. I leave that for my friend Maddox to answer. I could answer it.

Senator BRISTOW. It is the banks?

Mr. MADDOX. I do not know.

Senator BRISTOW. Is it not taking from the public a facility which it now has, which is a convenience to it, because it costs the bankers something to carry this?

Mr. REYNOLDS. There is, however, a very large exchange charge made by the banks against this very practice which ultimately must be charged back to the people.

Senator REED. Senator Bristow, you are not laying the pleasing unction to your soul that these bankers really lose this money themselves?

Senator BRISTOW. If they are charging the people and get the advantage of a higher rate than they would have to pay otherwise, of course they are making profit by it.

Senator REED. That is just it; they are charging these customers ultimately at one end of the line or the other. Either the man who draws the check or the man to whom it goes in payment has to pay these exchange rates.

The CHAIRMAN. The economic loss must rest on the commerce of the country, and that is where it belongs. You can not charge it up to any other source.

Senator HITCHCOCK. I would like to ask you whether this practice that country banks have of charging for the collection of these checks has not actually been promoted by the banks in the large cities themselves as a means of securing country depositors?

Mr. MADDOX. No; I do not think so.

Senator HITCHCOCK. And has it not been offered as an inducement to these country banks?

Mr. MADDOX. I do not think so. That is one of the features the banks recognized when the bank was chartered and organized and developed; it was existing then and is existing now.

Senator HITCHCOCK. As far as crediting at par the checks of one bank against another bank, they both being members of the reserve bank, while a bank would lose in one case, would it not gain in another case, and would not the offsets be reasonably equal?

Mr. MADDOX. Well, I do not think so, sir. The difficulty about having the regional reserve bank cash any check except the check the signature of which it has on file and a knowledge that the funds are available if that check is bad——

Senator HITCHCOCK. I am speaking now of the check of the one bank against another bank, they both being members of that reserve association or another reserve association.

Mr. MADDOX. The regional reserve bank could have no way of knowing whether or not the check was drawn by an authorized officer, in the first place, or whether the check of one member was good upon another bank, but immediately would charge it against the member's reserve account when it came into the reserve bank, and I do not see the necessity for it.

Senator REED. I did not understand that.

Mr. WEXLER. Let me explain that.

Senator REED. I do not understand why the central reserve bank could not have the signature of the cashier of each member bank.

Mr. MADDOX. It could.

Senator REED. Then it could tell when it got the check.

Mr. MADDOX. It would not know whether it was good or not.

Senator REED. The check of the bank which is a member bank?

Mr. MADDOX. Yes.

Senator REED. Now, it has some of the funds of that member bank on hand, and that member bank has some investment in the central bank, and it draws its checks in serial numbers. I do not see why you can not verify the signatures.

Mr. MADDOX. If, for instance, one member bank in Atlanta draws a check upon a bank in Savannah, your idea is to have the regional reserve bank in New Orleans cash that at par?

Senator REED. No; I was talking about the bank in Savannah drawing its check payable to me—its own check—and my taking that, I putting the money in my own bank, and my bank transmitting it to the regional reserve bank. When it gets there, you have got books in which you have the signatures of the 600 or 700 cashiers of these banks. You would have, of course, to verify the signature. You would not have any difficulty about that, would you?

Mr. MADDOX. That is a feature that might be incorporated—as I catch your idea, it is such as we call "cashier's checks."

Mr. WEXLER. For the transfer of funds.

Mr. MADDOX. Drawn by any member bank upon any other member bank would be redeemable at the regional reserve bank at its face value at once.

Senator REED. Yes; that is what I mean.

Mr. MADDOX. I do not see any objection to that.

Senator REED. What I have in mind is just this sort of a transaction: A merchant in Atlanta, Ga., wants to pay a bill to a wholesale house in Chicago, say $10,000. He comes to your bank and draws his check to you for $10,000. You thereupon issue him a check of your bank, drawn upon the regional reserve bank in Chicago. It goes to the wholesale house, and they take it and deposit it in their bank, and their bank is a member bank.

Mr. WEXLER. That is just what they recommend, Senator Reed.

Senator REED. And the member bank thereupon——

Mr. WEXLER. Is charged up with it.

Senator REED. Thereupon collects it through the central reserve bank.

Mr. MADDOX. That is exactly what we recommended.

Senator REED. That is all right, is it?

Mr. MADDOX. We recommend that with this distinction. As I get your question, Senator, it was the check of the bank upon itself—a

cashier's check, you said. You said a merchant would go to a bank in Atlanta and get a cashier's check.

Mr. WEXLER. He said a check upon a regional bank in Chicago.

Mr. MADDOX. I did not understand him to say that.

Senator REED. Why not a check upon itself if it had all the time money to its credit in the regional reserve bank?

Mr. MADDOX. That is entirely satisfactory, and this provision covers that feature, or it would be very easily incorporated.

Senator REED. Then, if a merchant did not want to "kite" a check—I guess that is a correct term—that is, send the check in, as was described here by Mr. Wexler, who seems to be something of an expert on that——

Mr. WEXLER. On stopping them. [Laughter.]

Senator REED. On stopping them; yes. If he did not want to send the check when he really did not have any money, and thus gets the benefit of three, four, or five days' time; but I mean if he really had the money and was willing to use it at once he could, under this suggestion we are now talking about, draw his check to his own bank and could save the exchange, and he would not be out anything. You do not object to that sort of thing?

Mr. REYNOLDS. That would be a common practice.

Mr. WEXLER. That is exactly what it should be, but what the country bank wants is to add:

Nothing in this clause shall be construed to compel the country banker to collect items drawn upon him free.

That has no relation to items drawn upon the regional banks, but items drawn upon the country banks, free. I think that should be put in in order to encourage the country bank to come into this system.

Senator BRISTOW. Mr. Maddox, on that point, if I am in business, we will say, at Bradford, Nebr., and I remit by check to pay a bill in Chicago, and the check makes its rounds and comes back to my bank, and it is charged to my account. I get a check from some one in some other town in my favor, and I take it and deposit it. At Bradford the bank may charge me for collecting that check.

Mr. WEXLER. Yes, sir.

Senator BRISTOW. If there is any bank in that community which will not make the charge, that bank will get a great deal of business which it would not otherwise get?

Mr. WEXLER. Yes.

Senator BRISTOW. So the banks make an agreement that they all will charge or none will charge.

Mr. WEXLER. That is right.

Senator BRISTOW. If some bank in the town wants to go in and not charge, they will get the business, and all the rest will go in and be each tumbling over the other to do it.

So you do not have to give them the guaranteed right to charge, because if one goes in they will all go in. They want to guard against our forcing them to come in and forcing them to handle these items for nothing; that is, they do not want to give up this line of profit because another community has already given it up.

Mr. WEXLER. Senator, there are a great many small banks that really could not exist without the collection charge, they could not

earn a dividend. Take a bank with $25,000 and $50,000 deposits, of which there are thousands throughout the South I know. They can not earn enough upon their small deposits to pay their dividends if they did not make this large collection charge. The collection charge collected by the State of Mississippi, as shown by a very respectable and trustworthy representative of that State, is that it amounts to $650,000 a year, collected by all the banks in the State of Mississippi for the collection of checks held by banks or individuals outside of the State of Mississippi on banks located in the State of Mississippi. They realize that the establishment of this system of banks will reduce that charge very materially, and should do so; but they do not want any provision in here under which the entire charge can be eliminated, and I tell you that it is a good policy to put nothing in the bill that will indicate that that entire charge is going to be eliminated, because they will fight you, and their representation is enormous, and you will have a great deal of difficulty in putting the bill through if you antagonize that very large class of banks throughout the country.

Senator BRISTOW. If we are making a bill wholly for the benefit of the banks, your argument is very good, but I do not understand that the purpose of this currency legislation is wholly and simply in the interest of the banks; I think the whole country is interested.

Mr. WEXLER. I agree with you, and banks located such as mine and Mr. Reynolds's and Mr. Forgan's, and the banks in all the large cities will benefit tremendously by having any such charge eliminated entirely. Therefore, we are talking against our own personal interest in the suggestion to you not to interfere with this as far as concerns the country banks. You will have to work out a great many other things in connection with this currency and banking scheme after it is once in operation, and you recognize that policy must govern you to some extent. You want to pass the bill, and you do not want the antagonism of this vast number of small banks scattered all over the United States which are to-day earning money from this source, and you can therefore just as well let a subject alone that will be too hot for you to hold, if you attempt to solve it at this time. [Laughter.]

Senator REED. There is one trouble about your logic, and that is that it does not follow that we want to pass this bill.

Mr. WEXLER. I am presuming that you do.

Senator REED. And if you keep on raising objections to it, I am going to think it is about the worst bill I ever heard of.

Mr. WEXLER. The objections that we have raised are only to a small part of the bill. There are a great many excellent features which we have not referred to.

Senator REED. I am getting interested in knowing what some of them are.

Mr. WEXLER. We will get to that subsequently. It is merely a matter of policy that I am referring to in regard to getting these banks with you in this proposition.

Senator HITCHCOCK. You answered Senator Reed's question, but there is still another question I would like to have cleared up. Is this merchant in Atlanta buying a draft for the payment of his bill? As I understand it, he buys a draft on the St. Louis bank and it is sent to the wholesale house in St. Louis, and the wholesale house in St. Louis takes that $10,000 draft and deposits it, say, with Mr.

Forgan's bank in Chicago, and Mr. Forgan's bank deposits it with the reserve bank located in Chicago. Now, he has deposited a draft drawn by an Atlanta bank upon a St. Louis bank.

Mr. WEXLER. Yes, sir.

Senator HITCHCOCK. Are you willing to have that received at par?

Mr. MADDOX. The provision we recommended did not contemplate that.

Senator HITCHCOCK. That is what I want to get clear.

Mr. MADDOX. The transaction that you refer to could be very much simplified under our provision. The gentleman doing business in St. Louis could come to a bank in Atlanta in order to pay the merchant in St. Louis for a bill of goods. There would be no reason under our provision for him buying a draft on St. Louis. He would simply buy the bank's draft on the regional reserve bank in our district, which would go at par in St. Louis.

Senator HITCHCOCK. You are the bank in Atlanta. His bank in Atlanta is privileged to keep a part of its reserve not only in a reserve bank but in a private national bank, and it may prefer to draw its draft on that bank. So that is bound to occur. What I want to clear up is whether your association objects to having the draft of one bank upon another bank received at par by the regional bank.

Mr. MADDOX. I do not think that that would be wise. I think the regional banks of those districts—there could be no reason why a bank in Atlanta would draw a check on a bank in St. Louis if it could draw a check on the regional bank and have it cashed at par in St. Louis to accommodate its merchant.

Senator HITCHCOCK. It might be either. It might be that the bank in Atlanta had $20,000 in one of the national banks in St. Louis, and it might have a small amount——

Mr. MADDOX. It would still draw its draft on the St. Louis bank and ask the St. Louis bank to send its check on the St. Louis regional bank, which would immediately go at par in the Atlanta district. That is exactly what you say.

Senator HITCHCOCK. Your answer is that your association objects to having the draft of one bank on another bank received at par by the reserve bank?

Mr. FORGAN. We do not object to any check being received at par.

Senator HITCHCOCK. You advise against it?

Mr. FORGAN. No; we do not advise against it. What we object to is the removing of the charges made by these small country banks at the present time, and that is all. These transactions that you are giving as an illustration would all go at par now.

Mr. REYNOLDS. We are perfectly willing to have that.

Mr. MADDOX. The removing of the charges made by the small country bank is the objection.

Senator HITCHCOCK. Is the check of the individual on the country bank?

Mr. MADDOX. That is the interest of the country bank in it, and that is the objection; and as they number 63 per cent of all the national banks, you can see at once if they do object it would be very serious.

Senator HITCHCOCK. I understood you to object to a draft by one bank on another bank because you could not tell if it was good. And one bank might not have a balance.

Mr. MADDOX. All objections along that line are not insurmountable.

The CHAIRMAN. Mr. Maddox, do you interpret the language of the bill with reference to individual checks and not bank checks?

Mr. MADDOX. What was your question?

The CHAIRMAN. I asked whether or not you construed the language of the act as found in the last paragraph of section 17, to which you have been referring, as intended to par private checks on individual banks, or whether it related alone to checks of member banks?

Mr. MADDOX. The paragraph reads:

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange collection, checks and drafts drawn upon any of its depositors, or by any of its depositors upon any other depositor.

That is, any bank.

The CHAIRMAN. They are exclusively banks, are they not?

Mr. MADDOX. Yes.

The CHAIRMAN. Therefore this section relates alone to checks on banks and on member banks?

Mr. MADDOX. No, checks upon any member.

The CHAIRMAN. Upon any of its depositors?

Mr. MADDOX. Depositors, when members; no depositor can be a depositor without being a member.

The CHAIRMAN. Therefore it only relates to member banks?

Mr. MADDOX. Absolutely—on checks on members, Mr. Chairman.

The CHAIRMAN. I see the point you are making.

Mr. WEXLER. If our bank gets a whole lot of items from its customers, drawn on little country banks, and we take——

The CHAIRMAN. You do not object to checks of member banks being taken at par upon another member bank or upon any regional bank?

Mr. WEXLER. Not at all.

Mr. MADDOX. Mr. Chairman, the other subject is the question of the savings feature of the national banks. You will see from the printed report that there is a long provision controlling the savings departments of national banks.

Senator HITCHCOCK. What section is that?

Mr. MADDOX. Section No. 27.

The CHAIRMAN. Page No. 29.

Mr. MADDOX. The provision seeks to control the savings deposits of national banks, and after a very full discussion of that feature, it was unanimously suggested that the provision be stricken entirely out, and no further recommendation in regard to savings banks than at present; in other words, to permit the national banks to continue to operate their savings department at present under the ruling of the comptroller.

At the recent convention of bankers in Chicago a resolution was unanimously adopted urging Congress not to incorporate in their new banking and currency bill section 27, covering savings departments of national banks, but recommended that the national banks be permitted to continue to operate this feature of their business as at present.

The last annual report of the Comptroller of the Currency showed that of the 7,397 national banks, 3,268 had savings departments, and that 2,709,048 depositors had to their credit $748,247,183, or an average deposit of $276.20. The savings deposits in the national

banks is less than 12 per cent of the total deposits in all national banks.

In the 25,195 banks in the United States in 1912 there was deposited $17,024,067,000, exclusive of bank deposits. Of this amount there were $6,496,192,000 in savings deposits, showing that of the total deposits in all the banks in the country 38 per cent consisted of savings.

Out of the 25,195 banks in the country the 7,374 national banks held practically one-half of all the individual deposits, while only 630 mutual savings banks held 55 per cent of all the savings deposited in the Republic.

The amount of savings deposits per capita in the United States in 1912 was $67.77, and for each geographical section was as follows:

New England States	$237.00
Eastern States	129.23
Pacific States	82.43
Middle Western States	46.13
Southern States	9.89
Western States	8.56

The average dividend of the national banks upon their capital and surplus last year was less than 7 per cent.

Senator HITCHCOCK. Is that for savings banks strictly?

Mr. MADDOX. All savings accounts.

Senator HITCHCOCK. It is not for building and loan associations, is it?

Mr. MADDOX. I took that from the comptroller's figures. I presume he figured it in that way.

State institutions doing a savings business in some of the States of the country are required to segregate savings deposits, and the law specifies into what investments they shall be placed. The wisdom of this method of handling savings accounts has been discussed by the officers of State banks, trust companies, and national banks at their various State and national conventions for several years, but owing to the rigid rules and regulations controlling national banks, it has not been thought necessary to apply this system of segregation of deposits and further regulation of investments for the savings deposits of national banks.

While the mutual savings banks have by far the larger part of the savings of this country, they operate principally in the larger cities, and the State banks and the national banks in other sections have opened savings departments in order to encourage saving and accommodate their customers, and they have attracted many deposits which otherwise might have been hoarded. The operation of a savings department provides an incentive to thrift and brings to the community an increased supply of capital and therefore benefits the banks and the people by furnishing increased deposits available for loan.

The opening of the United States postal savings banks has brought out $25,000,000 from persons who were too timid to let their funds run through existing banks into the channels of trade, and has proven to be a wise movement on the part of the Government.

It has been generally believed that about the best asset a bank can have is a good short-time paper made by a solvent individual or corporation. It is upon this class of paper we are about to base the

new circulating notes of the Nation. It is into this class of paper that the national banks have largely invested their savings deposits and against which they have carried the reserve required for demand deposits.

While in New England, New York, and Pennsylvania the local securities may be attractive for investment of savings funds, their low rates of interest are not so attractive in other sections. In Massachusetts, with its $800,000,000 in mutual savings banks, it is said that 90 per cent are invested within that State.

In Michigan 51 per cent of the savings must be invested in mortgages and bonds, 15 per cent held as reserve and the remaining 34 per cent may be invested as the directors see fit. In Massachusetts one-third may be invested in commercial loans and the remainder held in cash or mortgage loans.

While there are but few reasons for national banks segregating their savings deposits, we believe there are none why they should be forced to purchase bonds and mortgages. The investment question is purely a local one and what might be practicable in one section would be wholly impracticable in the other. We believe the requirement to set aside 20 per cent or one-fifth of the national banks' capital for their savings department and to require that such an amount shall be invested in bonds and mortgages is especially burdensome, as the banks now pay full taxes on this amount to the State, city, and county. We believe that the restriction as to the purchase of bonds of cities with a minimum population of 25,000, and also limiting the list of bonds of cities to those having bonds outstanding of only 5 per cent of their assessed valuation, will force the banks to purchase bonds of a very few cities. The interest on bonds of the United States and the different States is so low that there would be but little margin, if any, between the rate of interest paid savings depositors and the available income from such investments.

While this section of the bill does not so specifically state, it is presumed that the savings depositors will rely upon the segregated assets of that department, or will have a first claim on those assets, and if there is a deficiency they will have a further pro rata claim upon the other assets of the bank. We have seen in the recent past a great decline in the market price of bonds of all kinds and especially those which are available for use in savings banks, while commercial paper is still worth its full value.

If to meet a heavy demand on the savings department of the national banks in times of distress, the banks are forced to sell these bonds on a declining market, it would seem that this would likely produce a deficit in the savings department, but if the short-time commercial paper was held it would liquidate the savings accounts at par.

The preference of the savings depositors and the danger above referred to might seriously affect the confidence of the depositors in the commercial departments of the national banks, while all depositors are now mutually sharing responsibility in the solvency of the institution.

The bill proposes that about $750,000,000 now on deposit in national banks and doing their full duty to facilitate trade by being turned over three or four times a year in the currents of commerce shall be withdrawn from that service and locked up in long-time

bonds and mortgages. Business would be shaken as credits were withdrawn. Loans would be called and the borrowers would be forced to make loans elsewhere. There would be a hardening of rates, and many sections of the country would be seriously affected.

The demand for money in the United States has grown in proportion to its commercial development, which has been astonishing in the past two decades. The growth of the South and West has been wonderful, and these two splendid sections of our country are now throbbing with new life. The banks in those sections, aided by banks in the North and East, are doing much to promote this condition of agricultural and commercial activity, and their efforts have added to the credit and glory of the Nation.

To force the national banks to withdraw the amounts of their savings deposits from their present investment and convert them into bonds at this time would be hurtful, and we believe it is unnecessary. It would reduce the earnings of the banks, curtail credit, and the wage earners, who are the principal savings depositors, would certainly suffer. It would mean that large amounts would be withdrawn from the communities where they have been earned and taken to the large cities of the East or Middle West to find the character of securities prescribed in the new law. It would mean that the rate these investments now earn in the channels of commerce would be materially reduced if they are converted into low-rate bonds and mortgages. The banks would be compelled to reduce the rate they are now able to pay in their savings departments, or it would mean that the profits in the commercial side of the bank would have to go to make up the loss in the savings side.

The withdrawal of the loans from the customers of the national banks to meet the new law would force many of their patrons to other State banks and trust companies, which are now permitted to invest their savings deposits in commercial paper. In certain sections it would be impossible for the great mass of merchants and business men to obtain sufficient accommodation for their business in their own State.

At present, by encouraging the wage earner to save a portion of his earnings and deposit it in the home bank, the bank is enabled to again put it back, through loans to the merchant and manufacturer, into the business from whence it came and enable them to continue to pay the wage earner and by this process keep the wage earner busy and thrifty and keep the wheels of commerce moving.

To take the wages of the workingman out of the community where it was earned and where it is needed for commercial purposes and purchase bonds and mortgages in other parts of the country is a direct restraint of local development.

So far as we know, there is no demand from the savings depositors in the national banks to have their deposits segregated and the investment of their funds restricted to bonds and mortgages.

The present splendid law regulating the operation of national banks and the rigid governmental supervision of their action has given to the country a safe system of banking, protecting the depositor and benefiting the people.

We believe that the officers and directors in control of the national banks of the country can be trusted to continue to carefully safeguard

the interests of all their depositors; for their interests are mutual and inseparable.

The national bankers of this country have played an important part in the upbuilding of our Republic and are a credit to the Nation. They are as patriotic as can be found in any other profession, and as few have been found unfaithful to their trust as have been found in the other walks of life. The continued prosperity of our country is of vital interest to the bankers, not alone because they are bankers and have other large outside investments, but because they are Americans. Their interest in this bill and their presence here to-day is but an evidence of their patriotic and unselfish desire to assist as best they can, through their practical experience, in framing a banking and currency bill which will meet the needs of the Nation and promote the prosperity and happiness of all our people.

Senator REED. Mr. Maddox, that is a very beautiful and inspiring peroration, and I congratulate you, but I would like to know how you make it jibe with the remark of the gentleman quoted by Mr. Wexler, who said—

Let us have our exchanges though the Government fall.

Mr. MADDOX. He probably was not included in the class I referred to. There are some patriotic bankers, I believe, in this country.

The CHAIRMAN. Mr. Maddox, what is the present actual cash reserve against the savings deposits of the savings banks of the country?

Mr. MADDOX. Well, I think that varies in different sections, Senator.

The CHAIRMAN. Take it as an aggregate.

Mr. MADDOX. I am not prepared to answer that—the total reserve required.

The CHAIRMAN. I think it can properly be said to be 1 per cent cash.

Mr. MADDOX. I know in some States that it is very small.

The CHAIRMAN. Can you give the average of the distinctively savings banks of the country? I say that it is 1 per cent cash, while the reserves of the national banks at present is 25 per cent cash in the central reserve cities, 12½ per cent cash net in the reserve cities, with 12½ per cent as open accounts with reserve stations in the central reserve cities, and 15 per cent for the country banks, although the country banks carry 25 per cent of actual deposits.

Mr. MADDOX. Yes, sir; they carry the same reserve now.

The CHAIRMAN. I was going to ask you this question: If it would not be feasible as to the savings deposits of the national bank system to require against the savings deposits a small amount of cash reserves, since the savings deposits are peculiarly stable in character?

Mr. MADDOX. I think it would. The objection the banks make at the present time—and I mean the savings deposits of national banks. There are a large number of them in the large cities, but they are mostly in the smaller cities. I am not prepared to give the figures as to the section, but I do know that in some of the southern cities they have developed good savings banks and the amount brought back into the channels of commerce.

The CHAIRMAN. If they were required to have a smaller cash reserve most of these savings departments would release a portion of the capital for the service of the country.

Mr. MADDOX. I think they would. I think if the national banks were allowed to carry a smaller reserve in their savings department it would be a distinct improvement.

The CHAIRMAN. Would you think it advantageous to the national banks to carry these savings accounts now, to permit them to use a part or a considerable part of these savings deposits for loans upon farm mortgages?

Mr. MADDOX. Well, I think that the national banks, some of them, would like to invest their money probably on real estate loans, but they would not like to be told to do that.

The CHAIRMAN. I mean, of course, if they are given permission to do that, which now they do not have. You think it would be well to give them that permission?

Mr. REYNOLDS. I think if you reduce the commercial deposits and then allow them the privilege that it would be a good thing.

Senator REED. Do you restrict that answer of yours that you just made to the savings bank departments; that is, the savings departments where they receive money for a stipulated period of time?

Mr. MADDOX. Yes, sir.

Senator REED. And you think that department could properly engage in loaning money upon farms or other real estate?

Mr. MADDOX. Well, in some sections it might; in others they might prefer to continue to loan on commercial paper.

Senator REED. Do you think it would be proper for them to have that authority?

Mr. MADDOX. I think they ought to. I think national banks should be permitted to make loans on real estate if they so desire.

Senator REED. How about a bank that did not have a savings department?

Mr. MADDOX. Well, that is a very much mooted question. Some national bankers think it ought to be confined to commercial paper and others think they ought to be permitted to loan on real estate. In my own State I do not think that if that permission were granted the national banks would make any loans on real estate.

Senator POMERENE. That, of course, depends on financial conditions in the particular community.

Mr. REYNOLDS. Mr. Chairman, may I have just one word? In this connection the employment of savings deposits must be looked at from two different standpoints; first, the standpoint of the benefit to the local community which has just been outlined by Mr. Maddox. But there is the other theory, which prompted, no doubt, the writing of the original bill, was for the protection of the savings bank depositors on account of the business of loaning money in the banking business generally, because of the inability to discriminate between good and bad banks. I think those are the two points and I think they ought to be both borne in mind in the formation of this bill.

Senator MCLEAN. These savings bank departments generally exercise the privilege of notice—require notice?

Mr. MADDOX. Nearly all of the savings bank departments, I think, have that provision in their savings book. But of course you can understand that it is very seldom that that is ever taken advantage of.

Mr. REYNOLDS. They could not do it under the law.

The CHAIRMAN. Are there any other questions, gentlemen?

Senator WEEKS. Speaking of reserves on savings bank deposits, do you think it of any great importance whether there is any material reserve or not in a community where there are banks where they can obtain the cash for their daily transactions?

Mr. MADDOX. I think it would be an advantage to the banks if the savings department could carry a little less reserve. In some States this reserve constitutes a large proportion of the total receipts. At present under the national banking law they are required to carry 16 per cent reserve.

Senator WEEKS. Savings banks in Massachusetts do not have to carry any reserve whatever. They simply have to have a daily balance on hand to take care of the current business.

Mr. WEXLER. Under the law of Louisiana we are required to carry 5 per cent.

Senator WEEKS. I move, Mr. Chairman, that we adjourn to meet at 11 o'clock to-morrow morning.

The CHAIRMAN (after putting the motion). The motion is carried, and the committee will now adjourn to meet to-morrow morning at 11 o'clock.

(Thereupon, at 5.20 p. m., the committee adjourned to meet to-morrow (Friday) morning at 11 o'clock a. m.)

FRIDAY, SEPTEMBER 5, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

Present: Senators Owen (chairman), Hitchcock, Shafroth, Nelson, Bristow, Crawford, McLean, and Weeks.

The CHAIRMAN. I wish to say to the members of the committee, and to those whom we have expected to hear this morning, that there is a conference going on now of the members of the Democratic Party in the Senate, which may take some little time; but I think that the committee may proceed with the hearing, with the understanding that when the full membership of the committee is present—or when we certainly have a quorum present—those gentlemen who are making statements before the committee will be available for cross-examination. If that is agreeable to the committee we will proceed.

Senator BRISTOW. I suppose that is the best we can do, Mr. Chairman—unless we postpone the hearing.

Senator WEEKS. I think that will be all right, Mr. Chairman.

The CHAIRMAN. Then we will proceed. Mr. Wexler, Senator McLean would like to ask you a question.

Senator MCLEAN. Yes; I would like to ask just one question.

Mr. WEXLER. Yes; certainly.

Senator MCLEAN. I think one of the members of your committee the other day said that, no matter what bill might be finally passed by Congress, he thought that, owing to the condition of credits in February and March, it would be a better time to adjust the banking and currency system of the country by the proposed currency legislation than at any previous time.

And I want to ask you, if you could get this bill amended as is suggested by your committee, would you prefer to have it become a law immediately (or as soon as possible), or do you agree with the gentleman who testified the other day that there is a time in the spring of the year when this revolution in the system could be better adapted to conditions than at present?

FURTHER STATEMENT OF SOL. WEXLER, OF NEW ORLEANS, LA.

Mr. WEXLER. My answer to that question would be this: That even if the bill were adopted at the present time with these suggestions embodied in it it would probably take several months before the organization would be sufficiently complete to have the bank in proper operation to do business, and we have been striving for banking and currency reform for so many years, and we feel that we are probably nearer to it now than we have ever been, if the amendments that we have suggested should be adopted by your committee and passed upon favorably by the Senate and become enacted into law, that we think it would be better not to take the chance of anything happening to prevent the legislation by deferring it until some months after date.

It is a fact, of course, that money is easier, under ordinary circumstances, in the spring than it is in the fall; but, after carefully working over the figures to see just how this will work out if these amendments are adopted and the bill passes with the suggested changes we have made, we do not think it will give us any trouble whatever in paying over to the Federal reserve bank the necessary capital and the necessary reserve.

Senator MCLEAN. Well, would the enactment of the law by the 1st of January next be as satisfactory as it would to have it enacted the 1st of November?

Mr. WEXLER. If we are certain to have it enacted, I do not think the matter of two or three months makes any difference at all.

Senator MCLEAN. Well, in the event that these amendments are approved by the committee? But you must anticipate the enactment of this bill as reported to the House. What would you have to say as to the wisdom of immediate action?

Mr. WEXLER. Well, I should think that it would be very advisable for the Senate to defer action upon a bill as imperfect as that bill is; because if they should decline to accept our suggestions and should pass the House bill as reported by the House committee, you would simply have a shell; you would have a bill that would never come into operation, because the banks would not go into the system.

Senator MCLEAN. But suppose you have got to go into it?

Mr. WEXLER. Do you mean assuming that the bill will pass in its present form?

Senator MCLEAN. Yes; we are assuming that this bill, as reported by the House committee, should become a law?

Mr. WEXLER. Yes.

Senator MCLEAN. What would you say as to your preference in the time of its beginning to operate?

Mr. WEXLER. Well, I can not conceive of the bill ever coming into operation in that form, even if you pass it. You can not make the

18,000 State banks come into it, and you can not make the national banks come into it; consequently, you will not have any banks in it. You can pass all the bills you like; but if you do not have a sound bill, you have nothing but a bill; you have not got a bank.

And I can not answer that, because I know that if you pass the House bill without these changes which we have suggested, you will not have any bank. I am willing to stake my reputation on that proposition, that you will not have any Federal reserve bank, because you will not get any contributions to its capital. Therefore we need not argue on that point.

Now, going back to the other questions, as to passing the bill with the suggested amendments, if you are absolutely certain, or reasonably certain that you can pass a sound currency bill in January, and if you are not taking any risk of not being able to handle Democratic Representatives as well in January as you could now upon a measure of this kind, why there is no objection to its going over to January. But if there is any danger on that score, I would rather see a sound bill passed now.

Senator McLEAN. Well, Mr. Wexler, I think it is a supposable thing that you may have to accommodate yourselves to the bill as reported to the House. I think that is supposable. If you will try to assume that such a thing is possible, I would like to have your views as to your preference as to the time it should go into effect.

Mr. WEXLER. Well, admitting then, that we will be compelled to enter under any system that may be devised in such bill as you might pass, then I think the longer you could put it off, the better it would be.

Senator McLEAN. That is all.

The CHAIRMAN. Are there any other questions the members of the committee desire to ask?

Senator BRISTOW. Just let me ask Mr. Wexler a question, Mr. Chairman.

The CHAIRMAN. Certainly, Senator Bristow.

Senator BRISTOW. Would you prefer that the bill which has been reported to the House should pass rather than to have no legislation at all?

Mr. WEXLER. I would prefer no legislation at all.

Senator BRISTOW. You would?

Mr. WEXLER. Yes, sir; simply because I do not think the banks would come into it, and it would be a wasted effort, and an opportunity lost of getting what the country really needs.

Senator McLEAN. You base your opinion upon conditions in the South, largely?

Mr. WEXLER. Upon conditions in the South and upon the conversations I have had with bankers all over the country. I have been identified with banking reform for about eight years very actively.

Senator McLEAN. But you are exceptionally well informed as to conditions in the South?

Mr. WEXLER. I am. I do not think the bill as reported out of the House is a workable bill. There are a number of features connected with it that are not workable.

Senator HITCHCOCK. Is some member of your committee of bankers going to explain why the bill is not workable?

Mr. WEXLER. Why, all the objections we have raised and the changes we have recommended have been in the direction of making the bill a workable bill; they are based upon that idea largely. And if I might ask a question, the point was raised that we might be compelled to enter into any system, irrespective of the merits of the bill which might be adopted. Have you ever considered whether you could compel the banks to enter such a system?

Senator MCLEAN. Well, no; I do not think that is necessary to reply to the question I asked.

Mr. WEXLER. No; but it just raised my curiosity. I thought you might have in mind some way by which this could be made operative, whether the banks wanted it or not.

Senator MCLEAN. No.

Senator HITCHCOCK. Suppose the subscriptions to the bank were thrown open to the public; and the subscriptions of the banks were not absolutely necessary to the success of the measure, what would be your judgment as to the establishment of the bank?

Mr. WEXLER. Well, of course, the Government would have the power to go into the banking business in competition with the 24,000 or 25,000 banks that are now doing business; and there would be nothing to prevent their doing so. But we are perfectly willing to stand that competition. We believe we can hold our own against it, and we believe that we could survive a bank of that character, and that its competition for such a length of time as it was in operation would not injure our business to such an extent that we could not recover. In other words, we are willing to take our chances.

Senator HITCHCOCK. But that bank would not be in the general banking business, but would only be a bank of banks; that is, receiving banks' deposits and granting credit to other banks.

Mr. WEXLER. But, suppose the banks would not do business with it? You could not compel us to do so. You could drive us to the trough, but you could not make us drink.

Senator HITCHCOCK. Well, is it your opinion that the banks would not rediscount your paper with such an institution if they wanted additional funds?

Mr. WEXLER. Well, if the proper facilities were offered, they might do so—if the bank was properly managed and in proper shape to do business.

Senator HITCHCOCK. Is it not a fact that all the central banks of Europe are entirely independent of the commercial banking system?

Mr. WEXLER. They are independent of it; yes.

Senator NELSON. Still, they do a commercial business; the Bank of England does a commercial business.

Senator HITCHCOCK. Yes; they do a commercial business, but it is not as large as that of the commercial banks. In fact, I understand that the Credit Lyonnaise is larger than the Bank of France, so far as the deposits are concerned, and commercial business.

Mr. WEXLER. Yes; very much larger.

Senator WEEKS. Going back to that subject which you discussed of the directors of reserve banks. There are three characters—class A, class B, and class C—appointed by the Federal reserve board, one class of three elected by the banks in that district, and the other class of three elected from the business element?

Mr. WEXLER. Yes.

Senator WEEKS. Now, it is the last three over which there is a contention. You bankers desire to have those men so elected that they will be familiar with banking matters and in a sense represent the banking community.

The idea of the bill as it now stands would seem to imply that they should be entirely independent.

Now, could not those three directors be elected so as to answer both objections in this way: Have three directors appointed by the reserve board, three elected by the banks, and those six select three men from the business community who are not in any way connected with banks, or banking, or owners of stock in banks, or having any other affiliations than any business man would have in any community?

Mr. WEXLER. I don't think there would be the slightest objection to that. The objection that we raised was as to the right of the Federal reserve board to remove, at their pleasure, these three men whom we have elected to represent the agricultural and commercial interests. We did not object to their personnel; we did not object to the class of business which they represented. We merely objected to the right of the Federal reserve board to remove them.

Now, the method which you suggest for electing them, would suit the banks throughout the country just as well as the method provided in the bill.

Senator WEEKS. Well, you think that would give a fair and impartial board do you?

Mr. WEXLER. I do.

The CHAIRMAN. Are there any other questions, gentlemen? The Senator from Kansas.

Senator BRISTOW. I have got an impression from the hearings—it may be erroneous, but it is my impression—that your principal objection to the bill is that it does not give the banks a representation on the Federal reserve board of their own selection?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. And you ask that you be permitted to name three of the seven. And you also maintain that there are too many regional banks—that there should be 5 instead of 12; and I got the impression that these two were the major objections that you had; that the others were matters of detail and of less consequence?

Mr. FORGAN. No, sir; there are two gentlemen who are going to address you now on two other serious objections, or rather, as soon as they get the opportunity. They are here for that purpose.

Senator BRISTOW. Well, we will hear them upon the subject.

Senator NELSON. There are two other serious objections. One is compelling the banks to become members of the regional reserve banks, and the other is compelling one regional bank to discount for another, whether it wants to or not.

Mr. FORGAN. Then there are two other objections still to come that have not been brought out.

Senator BRISTOW. Well, your objections to compelling banks to become members whether they want to or not is dependent, is it not, upon your ability to have these three representatives on the central board? If you have three representatives on that board you would not object to that, would you?

Mr. WEXLER. Yes; we would.

Senator BRISTOW. Would your objection be just as serious?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. Even if you had representation on the board?

Mr. WEXLER. Yes.

Senator BRISTOW. I had not gained that impression.

The CHAIRMAN. Mr. Wexler, the committee has been carefully attending the objections that have been raised to the bill. I will ask you, before you leave, if you observed anything in the bill that was meritorious?

Mr. WEXLER. Yes, sir. I observed a good deal in the bill that is meritorious.

The CHAIRMAN. I should be glad to have you enumerate the points which you think are meritorious.

Mr. WEXLER. Mr. Chairman, do you want that now, or would you not rather wait until these two other gentlemen—Mr. Reynolds and Mr. Hill—of our committee have finished their discussion. I have had a great deal to say upon the subject that has been allotted to me; but if you desire me to go into this question after they have finished I will be very glad to do so.

The CHAIRMAN. Will you be still available for that purpose at that time?

Mr. WEXLER. Yes, sir; and very glad to do it.

Mr. FORGAN. Mr. Wexler is to appear before you again.

Senator NELSON. Before you start in I just want to call the attention of all of you to this: Do you not think it is a good feature in the bill that no interest is paid on deposits by regional banks?

Mr. WEXLER. Excellent.

Senator NELSON. And do you not think that it will be a good plan to carry it further and provide that the other banks should not pay any interest on bankers' deposits?

Mr. WEXLER. Well, if the law passes as drawn, we would not have any deposits from banks to pay interest on.

Senator NELSON. I mean why would it not be a good thing to provide that banks in reserve cities or central reserve cities should not pay any interest on deposits of other reserve banks?

Mr. REYNOLDS. For the simple reason that the reserves are fixed——

Senator NELSON (interposing). I do not mean just the reserves, I mean all bankers' deposits, whether they were reserves or not.

Mr. WEXLER. If you would reduce the requirement as to the reserve, I would subscribe to that theory; otherwise I would not.

Senator NELSON. Are you aware of the fact that after the panic of 1873, resulting in the Cook failure, the clearing house of New York had an investigation thoroughly made into that panic, and one of the chief reforms that they recommended after that investigation was that there should be no payment of interest on deposits, and that the majority of the banks coincided in that report; but there was a small fragment that would not agree to it, and hence it could not be carried out?

Mr. FORGAN. I think we are about in the same position.

Senator NELSON. Now, as you gentlemen here are public-spirited enough to want to assist the public, why not apply the same principle of payment of interest to your banks that you would apply to reserve banks?

Mr. WEXLER. Senator, we are in the position of paying interest, and not receiving interest, and it is the small country banker who carries his account with us who gets his interest.

Mr. REYNOLDS. We are not the men who receive interest on deposits, but the men who pay interest on them.

Senator NELSON. I will, by and by, call your attention to some other things in connection with this. I want you to discuss the good things, and I want you to be a little unselfish and say what you think we ought to do in the way of reform, not merely what you want to do.

Mr. FORGAN. If we could get the deposits——

Senator NELSON (interposing). And was it not from bad banking, rather than from bad currency legislation, that we had the financial panic of 1907?

Mr. REYNOLDS. It was from both.

Mr. WEXLER. Yes; from both. We had not the machinery to check the panic when it occurred. That made the panic. If we had had the proper machinery, we would not have had the panic.

STATEMENT OF GEORGE M. REYNOLDS, PRESIDENT CONTINENTAL AND COMMERCIAL NATIONAL BANK OF CHICAGO, ILL.

Mr. REYNOLDS. The question of good or of bad banking can not alter or be applied to public opinion, and public opinion, in times of depression, is the difficult thing with which the banks have to contend.

Senator NELSON. Do you not think that that panic of 1907, which leaves a bad taste in our mouths, because the country was prosperous, and it came like lightning in the midst of a sunshiny day; it came upon the country right there from New York, and the money interests were to blame for it, and not the law?

Senator HITCHCOCK. Mr. Reynolds, do I understand you to say that the Chicago National Bank receives no interest upon the balances of their deposits in New York?

Mr. REYNOLDS. I did not say that; but the balance upon which we get interest is very small, compared with the balance upon which we pay interest.

Senator HITCHCOCK. Oh, yes, I see your meaning.

Mr. FORGAN. If the suggestions should be carried out that there should be no interest paid upon any bank balances, the First National Bank of Chicago would be saved an expense of $1,200,000 a year.

Mr. REYNOLDS. It would save us an expense of over $2,000,000 a year; and you can readily see that we would not object if it could be put into operation and operate fairly with us as compared with everybody else.

The CHAIRMAN. Mr. Reynolds, would the passage of an act of that character, providing that banks should not pay interest on deposits, would that interfere, do you think, with the deposits which you have, in any material way?

Mr. REYNOLDS. I could not say that it would interfere so much with deposits in centers like New York, or Chicago, or St. Louis, as it would elsewhere. But there is one thing which must be borne in mind in connection with this problem, as well as every other problem;

and that is, that any system which is economically expensive, the expense must be borne by the public.

Now, if you take away from the banks of the country the right to draw $10,000,000 interest on their balances with their reserve correspondents—as they are doing to-day—and give them nothing to compensate them for that, either in the way of reduction of reserve requirements, or something else which would bring them some profit, then the rates of interest will have to be increased proportionately to give them a moderate return upon the investment in the capital stock of various banks, which will result in higher rates of interest, which in turn will increase the cost of living that we hear so much about.

All principles must go back to the people, and it makes no difference whether it is beneficial to the banks or otherwise in its effect it must work back to the masses.

Senator NELSON. Now, let us go back to the practical ideas. Is it not a fact that when money is plentiful in the interior of the country the country banks and the banks in the reserve cities send the money to New York, to the banks in New York, for the sake of getting their 2 per cent interest on the deposits? The banks in New York, at that season of the year, in order to utilize that money and make that interest, instead of investing it in what I call commercial loans or commercial strictly they invest it in call loans on stock collateral on the stock exchange, in those gambling contracts; and there is where the money comes from to do that. And then, in the fall of the year when there is a demand for the money in order to move crops and so on, their money is tied up in those stock collaterals.

Now, would it not be safer to keep that money at home instead of getting that 2 per cent interest on it—would it not be better for the whole country?

Mr. REYNOLDS. I do not think, Senator, there is any question about that at all. That does not, however, change the force of my statement to the effect that it would reduce the income of the banks from their present status of a little over $10,000,000 a year, which must be borne at some place by somebody else. Now, if you want to ask whether, as a principle of economy, if it would be better to take that $10,000,000 and spread it in higher interest rates which the people would have to pay, that is another proposition.

Senator NELSON. Well, would it not be better, so far as the question of safety is concerned?

Mr. REYNOLDS. I do not think there is any question about that.

Now, let me in the same connection make a statement as to how I regard this thing of the investment in the so-called stock exchange loans. If that money would be kept at home, Senator, and be invested by the local bankers in such loans as they can get over their counter, the liquidity of the assets of banks to that extent would be reduced, because I think you will agree that if the farmers of the country borrow this money and are called upon to pay it back before their crops have matured or before their live stock has been fattened for the market, it could only be done at a sacrifice.

Now, the whole tendency of sending money to New York for loans upon stock-exchange collateral is not because the banks of the West want to do it, but because, under existing conditions, it is the only

place to which they can go and invest their money in a class of paper that can be collected immediately upon call.

Senator NELSON. Now, let me read you here from Mr. Sprague's report from the monetary commission upon the panic of 1907:

Among the many lessons which may be drawn from the study of the experience of the national banks during the crisis—

And then he goes over the crises of 1873 and 1893, and then comes to this crisis—

The entire absence of liquidness and call loans, so far as the New York banks are concerned, is the most certain, and by no means the least important. And out of a total loan of $63,000,000, the call loan account was $54,000,000, and, furthermore, the time loans with collateral securities were stock exchange loans, to the extent of $4,000,000. The only kind of loan which was reduced at all was the ones of the variety of commercial loans, a time loan on paper with a single individual.

Now, during the panic the call loans were not reduced; it was the commercial loan which was reduced.

Mr. REYNOLDS. I agree with that as to the commercial loans. And in order that I may be understood clearly, let me state that it is a fact that the institution with which I am connected makes no loans in New York upon stock exchange collateral, either on call or on time, with the exception of very minor loans occasionally, where it is done for some particular purpose.

I might say that during the past six or seven years we have never had more than $1,000,000 or $2,000,000 loaned in New York at any one time against stock-exchange collaterals, very largely for the reason, first, that we can not afford to; the rates are low. And secondly, for the reason that commercial banks in my city, almost uniformly, try to employ their money in commercial enterprises in an effort to develop the commercial and industrial enterprises of the communities from which we draw our money.

Senator NELSON. Mr. Reynolds, do not understand me as charging your Chicago banks with the responsibility for that condition. I think you are immune. The guilt is at the door of the New York banks.

Mr. REYNOLDS. But I want to put what I say as forcefully as I can, because I am not interested in it, personally, one way or the other. Applied to normal times, the statement you have made is literally true, because the man who borrows money on stock-exchange collaterals in New York, and who wants to realize on them quickly, must depend on the ability of the borrower to reborrow that money immediately elsewhere or upon the sale of same. Now, if the condition is so bad that the banks of New York City are unable to extend the accommodation, the result is that there is a very violent break in the values of securities, and we are in the midst of a panic.

Senator NELSON. Yes.

Mr. REYNOLDS. Now, that is what actually happened in the panic of 1907; and the illustration you have made is literally true; and that is the reason that in all the discussions I have had on the subject of currency legislation I have insisted that the security for bank notes should be in a character of paper which naturally liquidates itself, and thereby forces to that extent notes which are issued against it.

Senator NELSON. You are undoubtedly right. Now, you remember that in the panic of 1907—excuse me for interrupting you.

Mr. REYNOLDS. You are perfectly free to do so. That is what we are here for.

Senator NELSON. In the panic of 1907 we imported nearly $100,000,000 of gold. I think it was some ninety-odd million dollars of gold, between ninety and one hundred million. How did we get that gold? We did not get it on financial bills; we got it on commercial bills; we got it on commercial bills accompanied with bills of lading, and it was American wheat, American flour, American cotton, and the commodities of our country which brought this ninety-odd million dollars worth of gold into the country.

Mr. REYNOLDS. Yes, sir; that is true.

Senator NELSON. And in addition to that our banks during that time—there was a suspension of 2 months and 10 days—increased their circulation some fifty-odd million dollars, and the Treasury deposited fifty-seven-odd million dollars in the banks. Four million dollars went to New York and was used for the stock-exchange loans, and two banks got most of that money.

Ought we not to provide for an emergency like that? Ought we not to legislate for panicy times and meet that situation when it arises? In easy, good times we do not need any law.

Mr. REYNOLDS. I think that is what you contemplate in your bill here. As bankers we do not contemplate that there is going to be a great necessity for a very large expansion of credit, but we regard this as the means to the end you suggest.

Let me take the matter you have just referred to, Senator. What would have been the result in the importation of the gold we have referred to had that panic occurred at a time when our crops were not ripening and had not been harvested? We would have had none of those commodities the exportation of which brought us gold. What would we have done in that contingency?

Senator NELSON. We would have had a hard time to get the gold.

Mr. REYNOLDS. That is the point exactly; and that is what I submit we should keep in mind in the matter of carrying the reserves in the banks at home. I agree with you fully in the principle, but in the adoption of that principle you must take into consideration the question of credit or exchange and the effect upon business; and you must try to modify the requirements of reserves within the limits of safety always, so that you will not lock up more money than is actually needed.

Senator NELSON. Do not misunderstand me as limiting my question simply to reserves. Most of the banks in the larger cities for exchange purposes—in New York, St. Louis, and Chicago—have the reserves that they are required to carry under the law. I would have this nonpayment of interest apply to deposits of the country banks. These reserve banks are paying interest.

Ought we not to legislate in these piping times of peace and not let this matter drift along until another situation similar to that in 1907 arises?

Mr. REYNOLDS. What is the cause of the panic? Is not the panic and the hoarding of money always subsequent to an inability of solvent and responsible firms to borrow money? What leads to the hoarding of money and the lack of confidence in times of panic? It is the knowledge of the fact that the best men of the community,

who are known to be financially responsible, are unable to get the credit necessary for the proper conduct of their business. If you provide a proper system of banking and currency, forming the organization through which credit can be extended to any reasonable requirements of business you are going to take away from the banks the liability of that fear which prompts the public to want to take their money out of the hands of the banks and hoard it.

Let me illustrate just a little how that works from the standpoint of the man in the city who carries these reserves. I can do it perhaps better by taking an example from my own business and my own experience during the panic days of 1907. At that time one of my junior officers came to me and said, "One of our customers is here, and he is very boisterous and he is very excited and he says he wants to get what he put into our bank." I said, "Well, there is no trouble about that." He said, "Well, this man is very much exercised, and I think you would better see him," and so they showed the gentleman in.

I said to him, "What can I do for you?" He said, "What is the matter with this bank; what is the reason I can not get out of this bank what I put into it?" I said, "Why there is no trouble about that. I am sure your idea must be entirely erroneous." "Well," he said, "this is the first intimation that I have had of any encouragement at all along that line." I said, "Sit down, and let us see what the trouble is."

I investigated the matter and found that his bank had $67,000 on deposit with us, and then I said to him, "Very well, we will give you back what you gave us."

I found that in the make-up of that $67,000 there was $13,000 of sundry items payable all over the country in his cash letter just received. Then I said, "By way of doing what I said we will do, here is your letter and your $13,000 of sundry items. Now we owe you $54,000. Now we will prepare a bundle of checks, indiscriminately, because that is the sort of checks you gave us, aggregating $54,000, and we will give them back to you, and we will then have given you what you deposited with us."

He said, "I don't want that; I want the money." I said, "I beg your pardon; your statement was that you wanted what you put into this bank." "Well," he said, "what I want is the money."

I said "What you want me to do is to let you and your community accumulate these checks, no matter what they may be, and you want to send them to us, and in times of emergency you want me to be a magician and turn these checks into bank notes, because every avenue through which we could hope to realize on them in cash is absolutely closed through public fear and distrust of the banks."

Now, gentlemen, let me first briefly as I can illustrate what I believe is necessary in considering this legislation. I believe the prime necessity is the passage of a law that will enable me as a banker to exchange these forms of credit sent to me in this way in the natural course of business, and of which we are getting millions every year, into some other form of credit to meet the requirements of the man who makes the deposit. In the first place, a man in the country sells a horse for $100, and I am taking this merely as an illustration. He takes a note of the man who purchases the horse upon the theory that he is not going to need the money; yet a little later on he finds

that he wants to use a part of that money and he goes to the bank and discounts it. He has converted the individual credit into a bank credit for the note upon the books of the bank.

Another process in the exchange of credit of that note into some other form of credit is when he issues his check upon the bank. He is known to be solvent in his community and his check is acceptable there, but suppose he has business transactions away from home. He is not known there and he fears perhaps his check will not pass current because they would not know it would be good. Consequently he goes to the bank and says, "I want to draw my check for your bank draft." He sends that bank draft to you in Minneapolis or any other city and it is deposited in your bank without any discussion whatever. You in turn have deposited that credit in the bank in Minneapolis or in some other place and you wish to go abroad, and you say, "Your bank draft will not be known there; I want currency for it." And what do you do? Through these processes you have converted or exchanged that credit through the various forms of credit which it represents into bank notes, which after all are only another form of credit.

If in this legislation you will provide an ability on the part of the bank to make these exchanges of the forms of credit from the nature in which they are deposited at the bank counters into such other forms of credit as the various customers of their banks may require in the daily transactions of their business, you will have solved the whole problem.

Senator NELSON. Excuse me for interrupting you so much. I did not want to break into your statement.

Mr. REYNOLDS. You do not interrupt me in the slightest.

Senator NELSON. I was merely going to say that you might go on with your statement.

The CHAIRMAN. I would like to ask you a question with regard to the panic of 1907. Do you remember whether or not in the months preceding the panic, beginning in January, February, April, May, there was any constriction of credit by the banks of New York City?

Mr. REYNOLDS. I do not think there was, Senator, except as it was required by their declining deposits.

The CHAIRMAN. Would not the constricting of credits and the declining of assets necessarily go hand in hand?

Mr. REYNOLDS. They must necessarily go hand in hand, but if the ability is not present to extend credit to the community when the community needs it because our reserves are insufficient we must decline to grant that credit or take the chance of having our charters revoked.

At this point I want to impress upon the committee the fact that the bankers of this country are not shirking their duty. As a matter of fact they are taking more responsibility than they have any right to do under the law in undertaking to maintain a free exchange of credit throughout the country, but as bankers we are deeply interested in this and we are very frequently forced either to decline to extend the credit desired or we are forced to make temporary impairment of our reserves. The average banker in a commerical city goes as far as he feels it is possible for him to go consistent with safety to provide the credit necessary, and I think my friend Mr. Forgan will bear me out in the statement that the most worrying thing we

have in the conduct of our respective banks is the floor walking necessary for us to do in our effort to accommodate the public, as we frequently do. We must impair our reserves below the legal requirements, and we are never certain that we are going to be able to meet the full requirements of the community even then.

The CHAIRMAN. Was there any voluntary contraction of credit preceding the panic of 1907, as far as you recall?

Mr. REYNOLDS. No, sir. I am frank to say that in our city the demand for money was not very severe before the 1st of July. In our own institution we had been quite full handed due to the fact that there was a lack of demand for money earlier in the year which had enabled us to make very large investment in commercial paper, so that on the 1st of July, 1907, even though our deposits were only $75,000,000 we had a maximum of $20,000,000 of outside commercial paper. The result of that was that in practical operation during the fall we were able to extend credit to our correspondents almost without censoring the amount. I mean by that without asking them to take a smaller amount than they asked for, so that if the balance they had carried with us was sufficient to justify the loan to the full amount of their application we gave them that amount of money. That was not true with banks generally where they had a larger percentage of borrowing customers, and during the months—I should say the four months preceding the panic of 1907, banks generally were obliged to restrict the granting of credit they extended to their correspondents because of the impairment of their reserves.

The CHAIRMAN. Was there not a tendency, beginning in January and February, of the banks of the country to enlarge their reserves as far as possible, and did not the country banks particularly undertake to enlarge their reserves?

Mr. REYNOLDS. I do not think so, Senator, not as early as that. I should say perhaps beginning in August or the middle of September. You will remember that the clearing-house certificate basis was not declared until the 26th day of October.

Senator NELSON. I think you are right.

Mr. REYNOLDS. And my remembrance is that the tendency of the banks in the country to increase their holdings of legal money as reserves did not manifest itself, not to any extent, until September.

Mr. FORGAN. There was, if you will remember, 10 days' suspension.

Senator NELSON. I was under the impression that the Chicago banks would never have been obliged to suspend if you had not been tied up by New York.

Mr. REYNOLDS. I do not think I would be fair to my friends in New York if I did not make this statement and let it go into the record, and I make it in all candor and frankness. I know that in 1907, through pride, perhaps, many of the bankers of the country gave as a reason for their failure to pay cash their inability to get their money out of New York.

Primarily that was true, but when I tell you that so far as our own institution was concerned after the first four or five days of the panic we had extreme difficulty in securing New York exchange enough to meet the wants of our customers, it probably will present a different aspect to you. In fact, during the panic of 1907 I can recall very distinctly that there were four or five days when we were unable to remit balances to New York when our friends requested us to do so,

for the express reason that we were unable to buy in the city of Chicago exchange on New York, even though in some instances it sold as high as $5 or $6 a thousand premium.

Senator HITCHCOCK. What do you argue from that?

Mr. REYNOLDS. I argue from that that they did not have the money there.

Senator HITCHCOCK. Where?

Mr. REYNOLDS. In New York. If our correspondents were asking us to send balances to New York the inference naturally would be that they had not sufficient New York exchange, and if we in turn had not sufficient exchange to sell to remit there and could not buy it in the market the inference naturally would be that there would be a shortage of New York exchange in all the banks.

Senator HITCHCOCK. At that time were the deposits of the country banks not about $300,000,000?

Mr. REYNOLDS. They were; scattered, of course.

Senator HITCHCOCK. That would seem to be a large balance.

Mr. REYNOLDS. When you scatter that amongst 25,000 banks it does not mean so much as you would think. Then, too, you must bear in mind that the figures given by the comptroller show balances due from reserve cities representing $250,000,000, I think Senator Owen said yesterday, of what we call the floating or transit. It was not in New York, although charged on the books of outside banks as being in New York. The moment a bank in Omaha enters upon its books a check and charges it to our account the books immediately show a credit with the Continental Commercial National Bank of Chicago of that amount.

Senator HITCHCOCK. But the figures given by the Treasury Department give the showing of the books in the banks of New York, and when I say $300,000,000 I mean that the books of the New York banks showed that they held that amount.

Mr. REYNOLDS. That might be true. I would not undertake to discuss it, as I am not familiar with that particular matter. I have no doubt that your statement is correct.

But I would answer it this way, then—the small banks of the country do not require much New York exchange. If a bank in Colorado or California carried $10,000 with us and we needed New York exchange we could not ask them to sell us New York exchange, although they may have had $25,000 of this amount to which you refer. I am trying to illustrate the difference between their demand and the demand in the commercial centers, because that is the only knowledge we have.

Senator HITCHCOCK. What, in your opinion, was the effect of withdrawals by local depositors; was the market really depressed by reason of the fact that country banks were taking out their balances?

Mr. REYNOLDS. I should say both. In Chicago, I think, that we must have shipped to the country in the 10 days preceding the date upon which we went upon the clearing house certificate basis—$15,000,000 altogether. During that time we could not get money in New York of any kind, due to the fact that public confidence had been disturbed in New York and both banks and local depositors were trying to withdraw their money.

Senator HITCHCOCK. The local demand on the New York banks only related to a few concerns. The great clearing house banks were

not suffering from the local withdrawal but were suffering from legitimate withdrawals which came from banks from other parts of the country.

Mr. REYNOLDS. You will bear in mind, of course, that the season when this occurred was the season of greatest activity in the movement of crops and fall business generally. Naturally I should suppose that the greater majority of their withdrawals were to the West.

Senator HITCHCOCK. Mr. Reynolds, let me ask you your opinion on this question: Suppose the New York banks—the national banks—were prohibited from allowing interest on balances of banks from other parts of the country. Do you think the banks of the rest of the country would keep on depositing there $300,000,000 constantly?

Mr. REYNOLDS. Well, not that amount probably, but they would be obliged to keep on deposit fairly large amounts, because when you take into consideration that the exchange transactions of this country amount to about $1,000,000,000 a day you will readily see that banks must have fairly large working balances in all the centers, and inasmuch as New York is without question the financial center of this country everybody nearly must do some business with that city. The tendency, however, in the West is for the banks to carry their chief reserve balances with the nearest by-reserve city correspondents. For example, at Fullerton, Nebr., a bank would carry its largest balance at Omaha. Omaha in turn carries their largest balance with Chicago. It works that way all the way through.

Senator NELSON. Mr. Reynolds, I want to call your attention to the fact that from the 22d of August to December 3, 1907, the New York banks increased their loans to the extent of $63,000,000 and out of this $63,000,000 over $54,000,000 was stock-exchange call loans.

Mr. REYNOLDS. Yes.

Senator NELSON. And there is where the money went?

Mr. REYNOLDS. Yes, sir; but I maintain that that did a world of good, because it helped to create a serene public confidence when confidence had been seriously disturbed.

Do not misunderstand me; I do not mean to say that under normal conditions that would do so much good, but whenever public confidence is disturbed and whenever solvent people are unable to borrow money anywhere in the country, anything which shows that there is money for investment has a wonderfully quieting effect upon public opinion. That is what I mean, and in that way it helps public opinion materially.

Senator NELSON. What right have those banks to cry out every fall and say "We need money for moving crops," when they put such an enormous quantity into these stock-exchange loans, instead of holding it for the purpose of moving the crops?

Mr. REYNOLDS. I do not know what they do.

Senator NELSON. That is what they did on that occasion.

Mr. REYNOLDS. I have heard a great deal of that sort of talk. I think there is a wrong impression in the minds of the people with reference to that.

Senator CRAWFORD. Mr. Reynolds, you spoke about the impairment of reserves, particularly when these stringencies occur such as the one in 1907. Of what good is a reserve if we do not impair it?

Mr. REYNOLDS. I quite agree with you, Senator; but the trouble is that the law does not give us that right.

Senator CRAWFORD. But should not the law give you the right?

Mr. REYNOLDS. In the bill which you have under consideration you provide, as it now stands, for an impounding of $520,000,000 of reserves, and you say the minimum must be so and so. Is that a reserve when you do that? If we are unable to use it in case of an emergency is not that an absolute impounding of money and is not that in reality capital rather than reserve?

Senator CRAWFORD. It seems to me that it is a mistake to do that, to provide for these reserves and then when the crisis comes and the full power of the banks should be used to ease the situation, to have an ironclad bar there to prevent the use of those reserves. It is like refusing to use water to put out a fire because you are afraid you will use up the water.

Senator NELSON. Senator Crawford, will you allow me to say one thing there—excuse me for breaking in.

Mr. REYNOLDS. I hope you will break in whenever you desire. That is what we are here for.

Senator NELSON. If you abolish the payment of interest on bankers' deposits I would be quite willing, speaking for myself, to leave this question of reserves to the banks, to their own judgment.

Mr. REYNOLDS. You have taken the words out of my own mouth. I want to discuss with you the question of reserves. I am going to conform to the recommendations made by our committee; but in the meantime I am here to express my individual opinion on that point. So far as I know America is the only place in the world where there is any requirement by law for reserves. I believe that the basic principle of reserves is that we should have a proper reserve and it should be gold. I believe the quantity to be kept should be left to the experience, judgment, and the skillful management of the bankers themselves, and if you are going to allow me to arrange that in what I regard the most scientific way I would let the banker carry what he thinks he ought to to protect himself.

If you were a merchant or manufacturer or jobber you would of course carry money on hand. Is there any law to tell you how much you must carry? Are not the requirements of your business and the precedents under which you work in that business the thing that should be taken into consideration?

One of the objections to this bill, which I wish to take up later on and which I will briefly touch upon at this point, is that we believe that they are asking for too much money to be put into the Federal reserve banks at the beginning, for the express reason, as we believe, that the minimum amount required there ceases to be a reserve if it can not be withdrawn in time of emergency. It is a good deal like a hospital bed in a city hospital endowed but with the understanding that it is always to be held in reserve.

Senator NELSON. Or like a spare bed in the founder's house.

Senator CRAWFORD. Mr. Reynolds, is it not also a mistake to begin to curtail loans and refuse to extend credit when these trying times come? Is not that the time when, so far as possibly can be done, accommodations should be increased?

Mr. REYNOLDS. If you will allow me to be somewhat personal in answering these questions and take incidents in my own experience

and business as the basis of my replies I think they will mean more than if I entered upon a strictly theoretical discussion.

Senator CRAWFORD. Yes; I think that is the best plan.

Mr. REYNOLDS. I will answer your question by saying that I believe the only way in the world to allay panics once started is to do all you can to feed out credit, because, as I said a moment ago, the desire to hoard money is only because of disturbed public confidence and distrust in the banks, and that occurs only when there is an inability on their part to extend credit.

Senator CRAWFORD. Is it not a fact that in New York those people have done great injury in these periods of stringency by holding on to these reserves and contracting credit when they ought to have used the reserves and extended credit?

Mr. REYNOLDS. I think, if you will study the records themselves, you will find that they have used it very frequently. On the other hand, I might answer you by saying that they can only conform to the requirements of the law in that respect.

In 1907, during the 60 days of the panic, our own institution made $16,800,000 new loans. During that time we used our credit more freely with the clearing house in Chicago than some of our friends did, but that was what I conceived the purpose of going on a clearing-house basis, and I exercised the functions as I regarded them proper to exercise and extended credit to my customers to the fullest extent to which I felt justified. I borrowed freely from the clearing house, using the clearing-house certificates as the basis for settlement of our transactions between the banks. The result was that the man who felt that he would need credit later on and had the assurance that he could get it did what he could to cooperate with us to allay the panic. The result was, too, that our deposits increased. If a banker carrying a reserve balance in three different cities writes to all of them that he may need some accommodation and two of them say to him:

> These are peculiar times; we can not let you depend upon us for anything, and you must stand upon your own bottom, because we have nothing with which to meet this emergency;

and the third one to whom he writes says:

> If you are consistent and careful and do not loan money for speculative purposes and do not borrow money to build up a balance against which we must carry a reserve, certainly we will do what we can for you, and we think we can take care of your needs—

the result would be that he would transfer as much of his balance as he could to the bank which promised most certainly to give him assistance, and naturally he would reciprocate by cooperating to the best of his ability.

Senator HITCHCOCK. You think that if the law prohibited banks in reserve cities and central reserve cities from accepting deposits of country reserve banks it would result in keeping the money nearer home.

Mr. REYNOLDS. Well, I think it would to some extent, but that money would be invested at home. Then the question of whether it would be invested in liquid assets and could be readily gotten at when needed is a question that would have to be considered. Of course, the exchange requirements would make it necessary to carry balances in large centers.

The actual working of that situation in 1907, for the first 10 days of the panic we city bankers were besieged by personal visits from

our correspondents in the country, many of whom came with their carpet bags, and some of them with clubs. They were going to have the money they had on deposit with us. They would send us checks from all over Christendom, and they wanted us by the stretch of our imagination to turn them into money or currency, which we were unable to do. There was a good deal of criticism the first 10 days, and bankers were abused pretty severely, but two weeks later those same men wrote back to us and said that by the application of the same principle of conserving their resources that we had applied they were running into more money than they needed, but they said "Please, will you not lend us some money to make exchange?" That is the way it worked out with the man who in the first instance was worried about his balance with us, who in the second instance plead with us to give him some credit, in order that he might keep the channels of commerce open through the selling of exchange.

Senator HITCHCOCK. If these balances were kept nearer home and if they did not drift into New York and other great centers, where they become scources of danger in times of stringency, would it not be better for the country as a whole?

Mr. REYNOLDS. I do not know that I caught the full meaning of that point.

Senator HITCHCOCK. Would you think we would have had any panic in 1907 if there had not been those great balances of country banks which were being withdrawn, to the embarrassment of the city bank?

Mr. REYNOLDS. Absolutely the same. It was a disturbed public confidence, and if you can pass some legislation that is sure to keep men from becoming frightened and disturbed and suspicious of each other, then you will prevent any disturbance of that kind.

In this connection I want to say that I do not believe you could pass any law the strict adherence to which would take care absolutely, under all conditions, of business. This disturbing of the public confidence would go too far. If a disturbed public confidence would have been noted only in the vicinity of New York, I would answer your question "Yes"; but how was it created? It was created because men like Mr. Wexler and brother bankers of his in the South, who had been promised lines of discount in New York City at the cotton-moving season, went there to get their lines of credit, and the New York banks, by reason of reduced deposits and reserves, had to say to them, "Gentlemen, we are sorry, but we can not keep our promises." What was the result? The result was that those men went back home thoroughly imbued with the idea that we were going into a very serious time financially; and with our present expeditious way of transmitting information it went all over the country in 24 hours, and it had almost as instantaneous an effect as the exploding of a dynamite bomb. It affected the whole country everywhere, and that is the reason we had to ship to our correspondents $10,000,000 or $12,000,000 in a week.

Senator HITCHCOCK. Let me ask you, would it not have been quite possible that Mr. Wexler might have procured the money which he needed for the cotton-moving if it had not been for the fact that 10,000 or 15,000 western banks were drawing balances out of New York at that time?

Mr. REYNOLDS. I do not think they were, Mr. Hitchcock. I think if you would study the records of that closely you would find that they only drew their balances after the condition in New York had reached a point where they were unable to do it. I know the first notice we had of it was from the South, from the people to whom we had loaned money. We had extended their usual lines, and had loaned money, in many instances, in amounts as large as $500,000 and $750,000, and many of those people came back to us and said:

We must ask you for additional credit, because we can not get it in New York. They have shut down on us.

Senator HITCHCOCK. Let me draw your attention to times in New York.

Mr. REYNOLDS. Yes.

Senator HITCHCOCK. Liquidation had been going on there since spring.

Mr. REYNOLDS. Yes.

Senator HITCHCOCK. There had been a run on three or four different banks?

Mr. REYNOLDS. Yes.

Senator HITCHCOCK. There had been meetings of the clearing houses and conferences. The result of those meetings had been telegraphed all over the country. Do you not think that these 5,000 or 6,000 or 15,000 or 20,000 banks over the country which had balances in New York were reading the papers, and do you not think that they were withdrawing their balances because they realized that New York was in difficulty?

Mr. REYNOLDS. They did, to an extent, but to what extent the best record would be to take the report of the comptroller. Of course, that all had a tendency to help increase that state of distrust which was gradually growing, and which a little later burst forth in a storm so fierce that everybody wanted their money.

Senator HITCHCOCK. Let me ask you another question. Is it a fact that your own bank is much more apt to be embarrassed by withdrawals of country bank deposits than by local deposits in Chicago?

Mr. REYNOLDS. Yes, sir; if there was a fluctuation, very much more so, sir.

Senator HITCHCOCK. The demand comes much more suddenly, however, because of stringency and attempt to readjust credit?

Mr. REYNOLDS. There is no argument on that. On the other hand, the serious question in all this discussion is as to how efficient you want your money to be. You could with more propriety say that you are very much safer in making the trip from here down to your hotel on foot than you would be to take an automobile. There are a great many ramifications that must necessarily affect a discussion of a question of this kind. If you have your reserves at home and have only the idea of their utmost safety in mind, you will necessarily impair their efficiency as reserves. By which I mean that it will be necessary for you to reduce the amount of credit that you can extend against those reserves. They are all factors in this proposition.

But what I hope to accomplish most by the little I can say is to impress upon this committee that this is the most important problem of legislation in this country since the Civil War. The ramifications

of the passage of currency legislation are so many and so great that it is only by discussions of this kind and the free interchange of opinions that is going to bring out the facts that will give everybody a proper viewpoint of the whole situation.

Senator McLEAN. Mr. Reynolds, in that connection, what are the resources of your bank?

Mr. REYNOLDS. About $225,000,000 in the national bank.

Senator McLEAN. You probably have correspondents in a great many States?

Mr. REYNOLDS. In every State in the Union.

Senator McLEAN. Now take, for instance, the Dakotas.

Mr. REYNOLDS. Well——

Senator McLEAN. In the time of stress, have you any tendency to discriminate against the small banks, say, in the country—in an agricultural community like the Dakotas?

Mr. REYNOLDS. Absolutely not. The contrary is the case, because, as practical and experienced business men, we know that their requirements are such that $1,000 or $2,000 may mean life or death to them, and so they are considered first.

Senator NELSON. We people of the West, Senator, have never felt that our banks were discriminated against.

Mr. REYNOLDS. We have about 5,000 correspondents, located in every State in the Union, and at the present time we are carrying a little over $100,000,000 in balances of those banks.

Senator CRAWFORD. Those people out there know you, and they know Mr. Forgan, and they simply enjoy your confidence completely. Now, I want to ask you——

Mr. REYNOLDS. Thank you for the compliment.

Senator CRAWFORD. I want to ask you, knowing that banking business out in that country, what there is in this system for rediscounting that really justifies compelling them to furnish capital for these big reserve banks—those little banks out there, as you know them?

Mr. REYNOLDS. If I may be frank with you——

Senator CRAWFORD. If you will just permit me to finish this question. Have they that class of paper which to any large extent would be recognized in the rediscounting done in these reserve banks?

Mr. REYNOLDS. Well, I think, Senator, answering the last part of your question first, that they are all somewhat mistaken as to that. They say they loan their money for six months. That means that even though the majority of their loans may be for six months or longer, that in the ordinary course of business they make one loan to-day, another loan to-morrow, and another the next day, and so on, so that in the last analysis they have a certain amount of paper maturing every day. In the natural practices they send to their correspondents in the centers everywhere such checks as come in and accumulate every day. If they would apply the same principle to their notes, sending in to the Federal reserve bank for discount every day the notes that would mature in 45 days, they could find a great deal of paper that would be eligible for discount.

Senator CRAWFORD. That is the point I wanted to be informed on

Mr. REYNOLDS. Answering the rest of your question, I do not see any reason in the world how they can be benefited more than they are. I do not believe that with the exception of a few days early in the panic of 1907 there was a single case where our bank declined to

extend credit to any correspondent who has asked for credit, provided their balances with us were of a character that we were warranted in doing so, and provided also we felt that the character of the bank and the collateral which they offered justified a loan. In other words, we have never declined to loan our correspondents, except during a few days in the panic of 1907, and even then such loans as we declined the first four or five days were recalled by telegraph and discounted.

That being the case, the banker in your State, Senator Crawford, who has his account with Mr. Forgan's bank or with mine, knows full well that if he is in good standing he can get what discount accommodations he requires. Therefore, he says:

> Why should I go into this? Why should I be asked, in the first place, to put up a part of my capital, and why should I be obliged to lose the interest on my reserve?

They think they are getting all they want. I believe if a canvass were made among the corresponding banks of all of the reserve centers in the West—and that does not limit it to Chicago—I believe if the bankers throughout the country could be written to and asked where they keep their accounts, and how many disappointments they have had, and how many times they have been badly treated, that you would be amazingly surprised at how few criticisms you would get, because, so far as I know, they have no occasion for complaint. We have something like 375 bank correspondents in South Dakota, and I can not recall ever having declined to loan to any of them if we felt they were good for it. Sometimes we are asked for loans by banks that are not in good repute, where we think their collateral is sufficiently liquid, or where they would be unsafe people to loan to, but even those instances are very rare.

Senator NELSON. We must not lose sight of the fact that in spite of these regional reserve banks that probably the bulk of the business of the small country banks would be with the banks in reserve cities after all.

Mr. REYNOLDS. Yes; there is no doubt about that. Let me illustrate another point.

Senator CRAWFORD. Just there, before you go to another point—I do not know that you have made it very clear—they are getting all the accommodation they need?

Mr. REYNOLDS. Yes.

Senator CRAWFORD. They are not making any complaint; they can rediscount the paper they have with your bank and Mr. Forgan's bank?

Mr. REYNOLDS. Yes, sir.

Senator CRAWFORD. They are not only asked to but they are simply required to——

Mr. REYNOLDS. They resent it; that is all.

Senator CRAWFORD (continuing). To give up this capital to a reserve city bank which they do not need?

Mr. REYNOLDS. They resent it; they say they won't go into it.

Senator CRAWFORD. Is it really a fair proposition?

Mr. REYNOLDS. I do not think it is. I do not think the proposition of compulsory entrance into the system is fair from any viewpoint, and I do not think that the establishment of Federal reserve banks under this bill can be accomplished in anything near the time by the adoption of that as would be the case if left free to do as they please.

Senator NELSON. Is it not necessary to get this new system complete and effective and in working order that State banks should be taken in?

Mr. REYNOLDS. I think so; indeed I do; because there are two to one.

Senator NELSON. And why should the national bank be treated in a different manner than we treat the State banks? Why should we make it compulsory in one class of banks and not in the other simply because in one case we may have the power to do so and in the other we have not?

Mr. REYNOLDS. My dear Senator, that is just what we are here appealing to you not to do.

Senator SHAFROTH. What advantages could you give or what inducements to any bank to come into this voluntarily?

Mr. REYNOLDS. Why, if you adopt all the suggestions we have made here it would correct the bill. This question of inducement and all that sort of thing gets down in the last analysis to a question either of profit or a question of doing something which will not entail a loss, and that I think enters very largely into the discussion of this whole question of not paying interest on reserves. That is not going to stop the inclination of people to use that money at a profit in some direction or other. I think that so long as men want to make a profit there is going to be speculation, and so long as there is speculation there is bound to be various forms of it. Of course, as bankers, we all want to encourage the system and policy which will permit of the least speculation possible.

Senator SHAFROTH. Do you believe that the national banks would come into this system with considerable unanimity if the compulsory part of it were eliminated?

Mr. REYNOLDS. I would hardly want to say they would do it from that one thing alone. If we eliminate that and could have some representation, I should say, "Yes," because other things objected to may be made workable through a process of evolution.

Senator SHAFROTH. So the only suggestions you make us are those two things?

Mr. REYNOLDS. That is not the only suggestion I make. There are many suggestions. But I regard them as infinitely the most important, because they are most repulsive to the people, and because we think they are unnecessary. We do not think we ought to be compelled, in the first place, to buy anything we do not want to buy, and, in the second place, we do not think we ought to enter anything in which we have nothing to say about the management.

Senator SHAFROTH. If this provision were amended just as you suggest there, what percentage of the national banks do you think would go into this voluntarily?

Mr. REYNOLDS. I think, if you make the modifications we have recommended, a very large percentage—I believe practically all of them—would go in; all of the larger banks especially. I am not prepared to say that the small banks would, because, as I have tried to illustrate here, they have been given such satisfactory service, generally in the reserve centers where they have carried their balances, they are satisfied, and for the time being they would be a little cautious. They know, on the other hand, that we would have the facilities for giving them the very thing they need—rediscounts in emergencies—and they say, "What is the use of our joining?"

Senator CRAWFORD. Would it be necessary for the success of this system for all of these little country banks to go in?

Mr. REYNOLDS. It is not. I would not have suggested that voluntarily, and I do not regard it as at all necessary, but, gentlemen, if you must know the truth of it, the reason we recommend only five Federal reserve banks was because we did not feel that the great majority of these little banks would go in at the start, and we do not believe that it is necessary that they should. We believe that they should be given the same rights that you give larger banks, and I believe if you start out on a proper basis that in time they will gradually come in until most all will avail themselves of the privilege, unless, of course, you force them out of existence.

Senator WEEKS. There is a sentiment in Washington, which I hear frequently referred to, to the effect that little banks are really in favor of the plans of the provisions now pending before the House, and that any expression that comes from them that they are not in favor of it is influenced by the larger banks. What have you to say about that?

Mr. REYNOLDS. I do not think there is anything in that at all. In the first place, I should question the correctness of that statement, because I have yet to find the first small bank that is in favor of the legislation.

Senator NELSON. That has not been my experience.

Mr. REYNOLDS. On the other hand, I want to say, unqualifiedly, I have seen nowhere evidences of any large banker trying to urge, coerce, or compel people to stay out.

Senator SHAFROTH. Mr. Reynolds, how many banks or what proportion of banks do you think, if the bill were enacted in its present form, would dissolve their national charters and take State charters?

Mr. REYNOLDS. I am afraid a very large percentage. Of course, that is a difficult question to answer. No man can definitely foretell. It is a question of opinion, of viewpoint, and that viewpoint is made up of the consensus of opinion of men in banking with whom we come in contact. So far as the expressions which I hear are concerned, they are of a character which will justify me in saying that the bankers generally would not come in.

Senator SHAFROTH. Would that percentage be very largely among small banks or city banks?

Mr. REYNOLDS. Well, both, I should say. That represents a principle, they feel, Mr. Shafroth—it is a principle that they do not think should be applied to force them into the system and not allow them representation.

Senator HITCHCOCK. Just before you pass from that point. Under the terms of the bill, they have a year in which to reach that decision?

Mr. REYNOLDS. Yes.

Senator HITCHCOCK. How much of that time do you think would be occupied in discussion and consideration?

Mr. REYNOLDS. I should hope all of it, because I should preach moderation myself. Sometimes men change their viewpoints when they come closer to a proposition and look it fairly and squarely in the face, and sometimes things which do not appeal to them just as the moment look more acceptable later.

Senator HITCHCOCK. Take your own bank; would it be submitted to your stockholders?

Mr. REYNOLDS. Yes; it would have to be, because we could not take any action anyway that would not make that necessary.

Senator HITCHCOCK. Would there likely be a diversity of opinion?

Mr. REYNOLDS. There would no doubt be that.

Senator HITCHCOCK. Would that be true in the case of most banks?

Mr. REYNOLDS. I do not think I or any other bank president can tell you what the attitude of his stockholders would be.

Senator HITCHCOCK. That discussion or uncertainty might go on for the better part of a year?

Mr. REYNOLDS. That is it, and we do not, as bankers, think there is any necessity of taking that chance without modifications such as we have recommended. Unless you have no faith in us as honest, well-meaning American citizens, who would formulate a system of banking and currency that would be successful, and I can not understand why we should take a chance in it at all, when it seems to me so easy to work out something that would be just and fair if we could only reach that point of view.

The CHAIRMAN. Mr. Reynolds, why should any of the country banks join this system at all if they get no corresponding benefits?

Mr. REYNOLDS. That is what I do not know.

The CHAIRMAN. Why should the country banks, who at the present keep on an average of 25 per cent of their deposits, a large part of it, with their reserve agents, not be profited by a system which would give stability to them and which would enable them to carry a much more reserve and invest their resources at a profit of 8 or 10 per cent instead of 2 per cent; is not that an advantage?

Mr. REYNOLDS. You do not provide for that. There is an indirect advantage, Senator, in anything that is established that is good as a principle—an indirect advantage. It would make the position of the country banker very much more secure if this bill were enacted and the larger banks would go in it, whether or not he comes into it, because he would get an indirect advantage in a greater measure of protection and safety, even though he might not be conscious of it. It would be an unconscious insurance against his being unable to meet the demands made upon him for money.

The CHAIRMAN. Would it not be both direct and indirect insurance against any undue demand upon him to meet his deposits?

Mr. REYNOLDS. Absolutely so.

The CHAIRMAN. It would be both direct and indirect advantage to him in that particular, would it not?

Mr. REYNOLDS. It would, indeed; there is no question about that.

The CHAIRMAN. Then, where he now carries an average of 25 per cent of his deposits as a reserve, because of his fear of some demand, because he, like any other of the 25,000 banks, is concerned to protect himself independently of protection that might be afforded to him through his correspondents——

Mr. REYNOLDS. Well, now——

The CHAIRMAN. Let me finish my sentence. Since that is true, would he not therefore be justified, under this bill, in keeping a much smaller reserve than he is now?

Mr. REYNOLDS. Yes, sir; I agree to that.

The CHAIRMAN. And if he did keep a smaller reserve, he would be able to loan that amount which now is in reserve at 2 per cent at the rate of 6 or 8 or 10 per cent; is not that true?

Mr. REYNOLDS. Absolutely that difference, whatever it would be.

The CHAIRMAN. If he did do that, Mr. Reynolds, would it not withdraw a large volume of deposits from your bank?

Mr. REYNOLDS. Yes, sir; it certainly would, but it would not hurt our earnings when he withdrew it. I want to make that statement perfectly clear.

The CHAIRMAN. I would like you to explain why.

Mr. REYNOLDS. It would be the character of business upon which we pay interest. It is the most expensive part of the business we have, on account of the immense number of these checks, which require a large clerical force; and I say in all candor and with all frankness that if this bill is adopted to-day, I honestly believe it would make our bank $300,000 to $400,000 a year more than it is making to-day; and yet, notwithstanding that, I am here pleading with you not to pass the bill, for other than selfish reasons, because I am afraid that in the process you are going to create a condition under which business will suffer.

Let us take our own business as a basis for argument.

The CHAIRMAN. Just a moment.

Mr. REYNOLDS. All right.

The CHAIRMAN. You say that now you carry hundreds of millions of dollars of deposits, mostly of country banks?

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. Do you wish the committee to understand that you are doing that business at a loss?

Mr. REYNOLDS. Because we are going to do it under this condition—an entirely new condition.

The CHAIRMAN. I am talking about the present conditions.

Mr. REYNOLDS. No; we are not doing it at a loss.

The CHAIRMAN. What is the average profit upon that business, for your bank?

Mr. REYNOLDS. It is about one-half of 1 per cent, net.

The CHAIRMAN. One-half of 1 per cent net?

Mr. REYNOLDS. On the business itself, but we have the indirect benefit which would apply in this way, that the bankers who have $100,000,000 with us are the biggest percentage of deposit customers to the smallest percentage of borrowers for we will not loan to banks to exceed 10 or 12 per cent of that money because they will not need it. They furnish the basis of loans which enables us to make loans of a million or two millions, and we get our indirect benefit there.

The CHAIRMAN. What are the current rates?

Mr. REYNOLDS. Current rates fluctuate. It may be 3½ to 6 per cent. It is 6 per cent at the moment, and at the moment we are making more than one-half of 1 per cent on these balances. I am figuring on the basis of 5 per cent. When we loan a man $500,000 we get $100,000 free balances from him, on which we make some profit. I am not now referring to banks but to firms and corporations.

When you follow that to its finality, the indirect advantage that comes to us is quite considerable, but I am giving figures based upon the employment of money at 5 per cent, the average rate during

any period of five years. There will be times when we will not be able to get more than 4½; there will be other times it will go as high as 6 per cent, but under the law of averages in any five years we are able to employ our money at an average of 5 per cent.

The CHAIRMAN. What is the estimated cost of handling this volume of money we are speaking of, the hundreds of millions of deposits, where reloaned in part?

Mr. REYNOLDS. I could not give you that. I have no estimate of that.

Mr. FORGAN. Including interest, a small fraction over 2 per cent.

Mr. REYNOLDS. About 4 per cent. When you take into consideration that banks like ours in central reserve cities carry 40 per cent, loaning only 60 per cent, it is only a mathematical proposition; but, through the exercise of a function of banking, that money is more or less centralized, where it can be used in the channels of business, at other places where the money is needed and where the borrower could not go directly to the source. It is because of this centralizing that we can make large loans.

I am objecting to the passage of this bill in its present form for the reason that most of these other gentlemen are. Because of this enforced entrance and the lack of representation in the control; but there is another reason that I am objecting to it, and that is as the representative of the country banker. I was born and raised in the country, had my early experiences in banking in a town of 850 people, and I believe I am fairly well qualified by reason of that experience and of later experience in Chicago and other cities, where my horizon has been somewhat widened out to see this situation from the viewpoint of the country banker. Having 5,000 correspondents, and having had almost a unanimous protest go up from them, I feel it is my duty to come down here and protest for that great class of bankers who are so closely related in a business way with my own bank. I believe every banker who has appeared before you to-day has such sense of regard for his citizenship that he is imbued with that spirit of a desire to do what he can to work out this plan along some lines that will be absolutely fair to everybody, and I want to tell you that the only basis upon which a bill of the importance of this can be reached is without prejudice and without animus, and it must be met with a determination of trying to do justice to everybody and to every class and give no one any advantage; and when you can convince me that you have a bill of that character I will be the first who will join you in adopting it, no matter how it affects my institution or myself.

The CHAIRMAN. Just a moment, Mr. Reynolds. You do not wish the committee to understand that your arguments heretofore have not been heard by those who have been working upon this bill?

Mr. REYNOLDS. No; I do not wish to convey that impression at all. The people with whom I have had contact in this matter have been extremely courteous and have impressed me with an honest desire to try to work out the best bill possible.

The CHAIRMAN. Have you not appeared before the House committee—last January or February?

Mr. REYNOLDS. Yes; I did.

The CHAIRMAN. Did you not appear before the Secretary of the Treasury?

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. Before the President of the United States also?

Mr. REYNOLDS. I referred to your committee. I think every utterance I have made, publicly or privately, has attributed to every man who is trying to solve this problem the best of motives, and I would like to have it go into the record here that way. I am only trying to show that the ramifications of this great problem are so many and so varied and so great that we must be pretty careful that we make no mistake in what we do.

Allow me to go on with my illustration. We have $100,000,000 of balances. If you get a currency law that is going to be effective and accomplish what you want, you are going to have to make a law that will bring in the State banks. If you bring into it the State banks and National banks——

Senator BRISTOW. May I interrupt you there a moment?

Mr. REYNOLDS. Certainly.

Senator BRISTOW. I have been listening with very great interest, but it seems to me that this discussion is a question of banking and not of currency. There is no criticism here as to the present currency condition, except what we heard the other day as to currency as a base of credit, but the complaint that we hear refers to the matters of banking as to the stability or desirability of our currency.

Mr. REYNOLDS. I am trying to discuss the banking end of it right now, and to show what happened——

Senator BRISTOW. You referred to currency legislation.

Mr. REYNOLDS. I mean banking legislation.

Senator BRISTOW. Is not there quite a distinction between legislation affecting the banks such as we have been listening to here this morning and a general question of a currency for the country?

Mr. REYNOLDS. Let the record show that I mean in every instance banking and currency.

Senator BRISTOW. Excuse me for interrupting. It seems to me there is a very great distinction.

Mr. REYNOLDS. I do not want you to have any misconception yourself.

If the rule of taking the reserves of banks from the centers were followed to its finality, it would mean that our institution would have to give up over $100,000,000 of bank balances. Since we carry 40 per cent of cash against our deposits it would mean that we would have to reduce our loans $60,000,000, less differences in reserves required, difference in amounts of money that we might have to carry in other centers, and for a more expeditious and economic handling of whatever part of our items now in transit would be handled through these banks, all of which are important factors; but the point I want to make is this: If by giving up our reserves we must reduce our loans so largely, where will the large borrower go for his money. I can not conceive where the man who borrows $1,000,000 from us now is going to go to get that money when we must make him pay it, for he can not go to the Federal reserve banks and get discounts.

The CHAIRMAN. Just a moment, Mr. Reynolds. Do not these big concerns now, when they want a large volume of money, divide their notes up into notes of $1,000 and $5,000 and $10,000?

Mr. REYNOLDS. Yes.

The CHAIRMAN. And send them through your bank to other banks for discount?

Mr. REYNOLDS. Well, they do not quite send them through themselves. They sell them in the open market. Note brokers handle such notes. There is a very large business already done, and I think it would augment that business, but when you take into consideration many big concerns must borrow $30,000,000 to $50,000,000, I think you will readily see that it will be a physical impossibility for those people to finance their entire needs in that way. That is the point I want to make. I am not making it in captious criticism at all; I am making it because I can not see how that class of business, that is now so important to our country, is going to be accommodated; I can not figure it out.

The CHAIRMAN. The point you seemed to be making was that these men, notwithstanding big business might not be able to stand a change, they would withdraw so large a volume of deposits it would result that way. I do not really think it will result that way.

Mr. REYNOLDS. I do not mean that.

The CHAIRMAN. I was trying to point out to you the means by which at present they were using the resources of the country banks from one end of this country to the other, and was trying to ascertain from you as a witness if that was not true.

Mr. REYNOLDS. Yes.

Senator WEEKS. As a matter of fact, when they get money from small banks in the country they get it very largely through your recommendations, do they not?

Mr. REYNOLDS. Almost wholly.

Senator WEEKS. In other words, the country bank which does business with you asks you to recommend?

Mr. REYNOLDS. Absolutely.

Senator WEEKS. And they do not make the loan unless you do?

Mr. REYNOLDS. With rare exceptions. They ask us about it and do not make the loan unless we O. K. the paper. The note brokers, of which we have a dozen, come to our office every day, and it is a part of our daily routine to assemble letters where we have orders from purchasers, and we try to divide that business as evenly as we can among the various brokers and as fairly among the different lines of paper which they have to sell as possible, keeping in mind, of course, safety and its ultimate payment.

Senator CRAWFORD. These deposits which might be withdrawn from that bank, nevertheless, are not absolutely obliterated. The money is somewhere. These people could borrow it from the people who have it?

Mr. REYNOLDS. Would it be practical for some large concern that needs to borrow $40,000,000 or $50,000,000 to write to a thousand banks in the Dakotas and see how much of surplus money in the Dakotas they could borrow?

Senator CRAWFORD. Of course not. The question is this——

Mr. REYNOLDS. I am only putting it to you as a matter to think over. I want to get it into the record, and I want you to give careful consideration to it. In our city and all over this country there are industrial enterprises that have been assisted in their development and growth very largely by the dependence on these lines of credit received through the larger banks throughout the country, and if we are

left in a condition that we must discontinue that, then it is a matter for you to decide how best to solve the problem so that they can go ahead with their business. I know you want to solve it for them. I am only bringing this point up as one that I have not seen any solution for in the bill. I have no doubt but it can be worked out.

Senator HITCHCOCK. Do you mean to take the position, Mr. Reynolds, that this would be a permanent embarrassment to the banks and to the borrowers or only a temporary embarassment while the new system is being put into operation?

Mr. REYNOLDS. I did not describe it by the words "permanent embarrassment." I hope you will not get it in the record as putting me quite in that light. It will be no embarrassment to the banks, because the banks will very quickly adjust themselves to changed conditions, if they are a party to this plan. Then the public itself will have to adjust itself to the new conditions. If those people who have had to borrow $50,000,000 under the new order of things, are only able to borrow a part of that amount they will have to restrict their business. If that is best, that will be satisfactory to me. But, as I say, it is a matter that will have to work itself out, and it gets back to the public, as I have said two or three times before. Whatever you do, the bankers are going to be all right, because they are going to adjust their affairs to conditions, but I hope general business will be protected.

Senator HITCHCOCK. Let me ask you some serious questions for the purpose of developing this thought.

Mr. REYNOLDS. Yes, sir.

Senator HITCHCOCK. The Treasury statement shows there are at the present time about $400,000,000 of country-bank deposits in the city reserve bank. A large portion of this would be withdrawn, under the terms of this bill, in the 12 reserve banks. Where would the reserve city banks get the $100,000,000 or $200,000,000 which they would be compelled to turn over to the reserve banks?

Mr. REYNOLDS. I think I can anticipate all of the questions along that line. I intended to go ahead a few words and sit down, but Mr. Hill urged me to go ahead.

I will say that, in the consideration of this matter, I have prepared some figures which I want to put into the record, containing my estimates as to just what the effect of putting this bill into operation would be, after the full transitory period had passed.

Senator HITCHCOCK. The bill without amendment?

Mr. REYNOLDS. Yes. We have in the banks of the country as of date June 4, 1913——

Senator NELSON. Do you mean the city banks?

Mr. REYNOLDS. No; national banks only.

The deposits on June 4, 1913, are divided as follows——

Senator NELSON. Do you mean State banks?

Mr. REYNOLDS. No; national banks only. Country banks, $3,610,000,000.

Senator NELSON. That is in the reserve banks or regional banks?

Mr. REYNOLDS. I beg your pardon.

Senator NELSON. You mean the deposits in the regional banks?

Mr. REYNOLDS. No; I am talking about our present system now for the purpose of making a comparison.

Reserve city banks	$1,945,000,000
Central reserve city banks	1,569,000,000
	7,124,000,000
Reserves carried	1,455,700,000
Of which—	
Lawful money was	913,000,000
Amount due from banks	542,700,000
Total	1,455,700,000

Detailed statement.

Country banks, 15 per cent:	
Cash	$266,000,000
Due from banks	310,000,000
	576,000,000
Reserve city banks, 25 per cent:	
Cash	242,000,000
Due from banks	232,700,000
	474,700,000
Total reserve, city banks, 25 per cent, cash	405,000,000

Total.

Cash in vault.	Due from banks.
$266,000,000	$310,000,000
242,000,000	232,700,000
405,000,000	
	542,700,000
913,000,000	
542,700,000	
1,455,700,000	

This amount equals 20.95 per cent.
Actual lawful money reserve, 12½ per cent.

Assuming deposits with our present banks would continue the same as they now are and deducting amount to meet the changed conditions on account of change in reserve requirements when the plan would be fully operative, three years after the passage of the bill, deposits would be	$6,581,000,000
Divided as follows:	
Country banks	3,610,000,000
Reserve city banks	1,635,000,000
Central reserve city banks	1,336,000,000
	6,581,000,000

Now, I am taking present figures as to volume of business, with only such changes as the law would make, and I only offer them as my belief as to the condition that will exist at that time.

Reserve that would be required	$968,220,000
As follows:	
Lawful money in vault	447,890,000
Credits with Federal reserve banks	520,330,000
Total	968,220,000

Detailed statement:	
Country banks, 12 per cent—	
Cash	$180,500,000
Federal reserve banks	252,700,000
Total	433,200,000
Reserve city banks, 18 per cent—	
Cash	147,150,000
Federal reserve banks	147,150,000
Total	294,300,000
Central reserve city banks, 18 per cent—	
Cash	120,240,000
Federal reserve banks	120,240,000
Total	240,480,000

Totals.

	Cash in vault.	Credit in Federal reserve banks.
	$180,500,000	$252,700,000
	147,150,000	147,150,000
	120,240,000	120,480,000
Cash	447,890,000	520,330,000
Federal reserve banks	520,330,000	
Total	968,220,000	

Reserve required in lawful money, 6.8 per cent.

Senator HITCHCOCK. That is a loss of $650,000,000 in reserves?

Mr. REYNOLDS. It is not a loss of that much—$465,000,000 actual money. I will come to that here. Counting reserve of 33⅓ per cent in lawful money, which Federal reserve banks would be obliged to carry, against the $520,330,000 that banks would carry with them, the reserve in lawful money against deposits in both classes of banks would have to be $621,300,000, or 8.7 per cent. As a minimum, it will be seen that the amount of lawful money banks would then have on hand would be $447,900,000, as compared to $913,000,000 under existing laws.

Senator HITCHCOCK. That is, the banks instead of turning over cash would turn over new paper?

Mr. REYNOLDS. Customers' notes to that extent.

Senator HITCHCOCK. Under their endorsement?

Mr. REYNOLDS. Yes, sir.

This would release $465,100,000 in lawful money, which banks could use in depositing their reserves in Federal reserve banks. Assuming that all the national banks would go into the systems, they would be obliged to place with those banks the following amounts:

On account of subscriptions to capital in Federal reserve banks, $105,000,000; reserves, $520,330,000; total amount to be controlled, $625,330,000.

Now, in addition to this amount we will assume the Government would have on deposit with national banks an additional $75,000,000, which they would no doubt have to give up, since it is estimated there would be $200,000,000 of Government funds deposited in the Federal reserve banks. The total amount necessary for national banks to

furnish by time plans would become fully operative would be $700,330,000.

Just how such a vast sum could be paid into the Federal reserve bank and the effect it would have on business has been the cause of much speculation. It seems to me that the most natural as well as practical way would be as follows:

Inasmuch as under the new requirements for reserves that will have been made effective, the amount of lawful money now carried by banks in excess of amount that will then be required, or $465,100,000, can be turned over to the Federal reserve banks without inconvenience, and the balance of the amount necessary to furnish the $700,330,000 required can be rediscounts of $235,230,000. At that point the Federal reserve banks would have $465,100,000 in lawful money against which they would have loaned to national banks $235,230,000.

The Government in completing its deposit of $200,000,000 will pay into the Federal reserve banks an additional $125,000,000 in gold. That will make the holding of gold, or lawful money, by the Federal reserve banks $590,100,000, and the combined statements of those banks would be about as follows:

Liabilities:	
Capital	$105,000,000
Deposits—	
Banks	520,000,000
United States Government	200,000,000
	825,330,000
Resources:	
Loans	235,230,000
Cash	590,100,000
	825,330,000

This would give the Federal reserve banks a lawful money reserve of 81 per cent, and with a reserve requirement of 33⅓ per cent would give it an ability to extend credits to banks on rediscounts of $810,000,000 in addition to the $235,200,000 above referred to.

That is my deduction of the result as to how this bill would work out in actual practice.

Senator HITCHCOCK. That is, providing for the issue of no notes?

Mr. REYNOLDS. I do not care anything about the issuing of the notes; that has nothing to do with the statement. I give the figures I want to draw my facts against.

Senator HITCHCOCK. It would make a difference in reserves if you figure 80 per cent there.

Mr. REYNOLDS. For $200,000,000 or $300,000,000 it would be left with that percentage—81 per cent reserve over all liabilities to that point. If it issues $300,000,000 of notes, it would have less of reserves.

Gentlemen, I have been delegated to ask you to make a modification in the section of the bill relating to these reserves, and our committee adopted the resolution authorizing us to present it to you for the reason that the claim was so insistently made by the bankers from country towns that it would have to be done to make the plan fair to them, and I appear before you for that purpose.

Fearing that the withdrawal of such a large sum from the banks will seriously disturb the credit relations between them and their customers, and believing there is no necessity for the Federal reserve banks to lock up so much money at the start, thereby impounding it and rendering it not available for public service, except through indirection of rediscounting by the banks, and with a view of making the plan less onerous to the banks in the country towns and ordinary reserve cities, the conference recommended that section 20 be stricken out and a new section be substituted providing that reserves shall be held against net deposits according to the present system and against time deposits maturing in 45 days, according to the following system:

Country banks: Reserves of 12 per cent, 4 per cent in vault, 4 per cent with Federal reserve banks, and 4 per cent with approved reserve agents, as at present.

Reserve city banks: Reserves of 18 per cent, 6 per cent in vault, 6 per cent with Federal reserve banks, and 6 per cent with approved reserve agents.

Central reserve cities: Reserves of 20 per cent, 10 per cent in vault, and 10 per cent with Federal reserve banks. The changing over of reserves to be accomplished gradually as follows: One-third in 60 days, one-third in 14 months, and one-third in 26 months. Under this plan the following would be the result:

We recommend that reserves in central reserve cities be increased 2 per cent, for the reason that if you adopt our recommendation, we would still act as reserve depositary for a considerable amount of money, and we felt that in justice to the situation that our own requirement in central reserve cities should be increased 2 per cent. If you do not grant our petition in this respect, then we do not see any necessity for making any distinction between the ordinary and the central reserve cities. The distinguishing difference between our recommendation and the plan as it is provided here is that we have asked that you allow one-third of the 12 per cent of country banks, and one-third of the 18 per cent of ordinary reserve city banks to be continued as reserve balances for those institutions rather than to require that it should be held in their own vaults and in the vaults of the Federal reserve banks.

Senator NELSON. May I ask you a question right there?

Mr. REYNOLDS. Yes, sir.

Senator NELSON. Why would it not be better to limit the reserves, making it a good deal smaller and to have each bank retain its own reserves—make it a small amount, and not have a reserve in other banks?

Mr. REYNOLDS. Divide the efficiency, or rather you impair the efficiency of money when you do that. You get closer and closer to the old practices when you paid a hundred cents on a dollar in actual money in every transaction.

Senator NELSON. Suppose you only require country banks to keep 5 per cent reserve and to keep it in their own vaults, and suppose you let banks in the central reserve cities keep only 10 per cent and keep it in their own vaults?

Mr. REYNOLDS. That would overcome that objection.

Senator NELSON. Suppose you had at the central reserve banks 15 or 20 per cent, as you might say. If you reduced it you would

have a real reserve; each bank would carry its own reserve and would not have to be dependent on any other bank. There would not be any interlocking of reserves.

Mr. REYNOLDS. You mean by that, then, not to provide some system to which they could go in emergencies for additional help?

Senator NELSON. If country banks were depositing with city banks, and city banks were depositing with central reserve city banks, there would be no impediment; they would have to keep exchange moneys just the same, but why not, if you want a reserve, make it an actual reserve in the bank?

Mr. REYNOLDS. Senator, will you let me finish, and I will try to answer your question? It conforms to an idea that I want to express along this line anyway.

I have made a sketch of the plan as I believe it will be, so far as the banking condition would be concerned, at the end of three years after this system would become entirely operative, to show what conditions would be at that time, and without going into details I would say that it would result as follows:

Deposits would be		$6,800,000,000
As follows:		
Country banks	$3,610,000,000	
Reserve city banks	1,800,000,000	
Central reserve city	1,390,000,000	
		6,800,000,000
Reserve required		1,034,700,000
As follows:		
Lawful money in vaults	391,200,000	
Due from Federal reserve banks	391,200,000	
Due from national banks	252,300,000	
		1,034,700,000
Detailed statement:		
Country banks, 12 per cent—		
4 per cent cash	144,300,000	
4 per cent Federal reserve bank	144,300,000	
4 per cent national banks	144,300,000	
		432,900,000
Reserve cities, 18 per cent—		
6 per cent cash	108,000,000	
6 per cent Federal reserve bank	108,000,000	
6 per cent national bank	108,000,000	
		324,000,000
Central reserve cities—		
10 per cent cash	138,900,000	
10 per cent Federal reserve bank	138,900,000	
		277,800,000

Total cash.	Federal reserve banks.	National banks.
$144,300,000	$144,300,000	$144,300,000
108,000,000	108,000,000	108,000,000
138,900,000	138,900,000	
		252,300,000
391,200,000	391,200,000	

The lawful money required as reserves for national banks would be $391,300,000, which would release $521,800,000 of the $913,000,000 lawful money now carried.

National banks would be required to furnish funds as follows:

Capital stock	$105,000,000
Reserves at Federal reserve banks	391,200,000
Assume Government deposits	75,000,000
	571,200,000

Turning in lawful money of $521,800,000 would require rediscounts of $49,400,000, add to cash of $521,800,000 the amount of Government deposits in gold, $125,000,000, and the Federal reserve banks will have $646,800,000, and the statement of the Federal reserve banks would be about as follows:

Liability:	
Capital	$105,000,000
Deposits	591,200,000
	696,200,000
Resources:	
Loans	49,400,000
Cash	646,800,000
	696,800,000

Thus being able to expand credit $1,291,000,000.

This plan differs from that covered by the bill in that under it banks in country towns and reserve cities would have the right to count as reserve $252,000,000, upon which they would get 2 per cent interest or $5,040,000 per annum.

Senator NELSON. Is not that really the result of adopting the present system?

Mr. REYNOLDS. Yes; it reduces pyramiding of reserves, and I say "pyramiding" to conform to the general phraseology, because people discuss it in that way—about $290,000,000, or about 55 per cent.

Senator NELSON. Still it keeps up the system?

Mr. REYNOLDS. Yes; to a certain extent. My theory and the theory of the people who made this recommendation was that while we might agree with you in principle that the pyramiding of reserves was not a proper banking principle, still we have a condition and not a theory, and our theory in asking for this change is that we may be given more time to comply with the change which is being provided for in this bill as it now stands.

Answering your question about the concentration of these balances at central points I want to diverge a little and say what I had not intended to say, namely, that I believe the reason for the greatest measure of efficiency that we have had under this national banking system, which was organized with a dual purpose of providing a banking system on the one hand and a market for the Government bonds on the other, has been because of the growing use of what we call "country checks," which are instruments of credit in our business. The tendency for the use of checks rather than money has grown to such an extent that we are to-day doing our business on 95 per cent of credit and the use of less than 5 per cent of actual money. In practice that has worked about as follows:

Formerly in the movement of the wheat crop from the Dakotas and the Northwest, or the cotton crops of the South or the wheat of the Southwest, it was necessary to send to those sections through central reserve banks, large sums of money to be paid out when those crops

were brought into the market. As the growing use of checks was adopted in the communities where a development was taking place all the time and where more land was being brought under cultivation, the local people organized little banks all through those sections of the Dakotas, Kansas, Missouri, Iowa, Nebraska, and you will find scattered all over those States a large number of small banks. Those banks number among their stockholders the doctors, merchants, and also the farmers of their communities. The result is that almost every farmer of any consequence in those neighborhoods is a stockholder in some of those banks, and through the process of evolution in the handling of our business, through which credit instruments have taken the place of the use of actual money, the farmer in Dakota who sells his wheat to-day goes to the bank in Senator Crawford's town and exchanges it, not for money, but for credit. He accepts a check on a bank for his wheat. The farmer in turn takes the check and deposits it to his credit at the bank, and pays his bills by checking against it. The value of his account in that bank to him at least depends upon whether or not his check will pass current where he wants to use it.

The natural tendency has been that the banker has gone into an active, energetic campaign to make those checks circulate just as widely as he can, thereby encouraging and increasing nondeposits and encouraging every farmer that he could to come in and open an account. In undertaking to do that he has tried to have his checks cover the whole area of the country, and through this process we are now handling hundreds of millions and billions of dollars worth of products of the soil of this country entirely by the use of these instruments of credit. The country banker believes that if you take away from him the right to make these checks available as readily as they are to-day for reserve and other purposes, that you are going to hurt him in the conduct of his business in his community and in his relations with the farmer.

As I have said before, we come to you and ask you to make these modifications very largely at the request of the country banker himself.

Senator NELSON. Mr. Reynolds, let me interrupt you.

Mr. REYNOLDS. Yes.

Senator NELSON. The country banker can not check against the reserve money. He must have other deposits in the bank to check against.

Mr. REYNOLDS. I wish that were true, because if it were we would not have any trouble.

Senator NELSON. Is not that a matter of law—can he check against reserve money and withdraw his reserves?

Mr. REYNOLDS. Yes——

Senator NELSON. Suppose this country banker has all his resources, except what he is required to keep in his own vault, in your bank and that was all he had on deposit, and he should draw that out by check.

Mr. REYNOLDS. Yes; he would do it in this way.

Senator NELSON. He would be violating the law, would he not?

Mr. REYNOLDS. I agree with you—technically but not literally. I think I can explain that to your satisfaction. Here is what would be done: He would go to the bank and say, "I want a $10,000 Chicago

draft." The banker would have $10,000 or $12,000 at Chicago, and it might be $2,000 or $3,000 more than the legal requirement would make it necessary for him to carry, but he would have to carry a reserve of $2,000 or $3,000 in order to give you that check. He goes to the grain merchant that night and he says:

I have got to have some Chicago exchange, and you are owing me some money, and I am carrying that grain. I will have to realise against your note. You must load up two or three cars of grain and send it into Chicago and draw your draft against the commission merchant, attach bill of lading, and make some exchange for me.

The minute he gets that draft attached to that bill of lading it is entered on his books, and in the meantime the cars of grain are started on their way to Chicago, which may be from one to four days' distance from the shipping point, and it is a reserve, under the law, the moment he enters it on his books.

Senator NELSON. But does it not after all amount to this in the long run, that in order to have a permanent checking account he must have some more deposit than his mere reserve?

Mr. REYNOLDS. As I say, it is a question of efficiency of reserve. If you can maintain through the enactment of law or through the establishment of some policy in business, which will establish a greater source of confidence in the community and in our business institutions, why, yes; but, on the other hand, you can not reduce your reserve, Senator Nelson, to a point that will be dangerous without taking chances.

Senator NELSON. Let me put you a case there. Take a country bank. Suppose he requires a country bank to have 5 per cent reserve, and no more, but keep it in his own vaults. All the other funds of the bank would be at his command, and it could keep as big an account with the bank as it saw fit—checking account. If, in addition to that, you required a country bank to put 7 per cent more, in addition to the 5 per cent, with that bank, as a reserve fund, that is tied up, if the law is complied with; that is now available; it is only a benefit to your bank, but it is not a benefit to the country bank. Would it not be better for the country bank to say to it:

All but 5 per cent of your liability you can use freely; deposit it wherever you like and check against, but whatever little reserve you have you must keep it in your own vaults.

Mr. REYNOLDS. I think you will recall that I made the statement that in my belief the scientific method of handling those reserves was to make no requirement. I would accept your amendment as not requiring that amount, because I think that every country bank should keep 5 per cent reserve in its own vaults.

Senator CRAWFORD. Would not Senator Nelson be assuming just directly the opposite of the whole theory of this proposed legislation, where it is claimed that all the reserves of the country could be in one central reservoir, mobilized so that they could be used to strengthen the weak spots here and there?

Mr. REYNOLDS. Yes, sir.

Senator CRAWFORD. So that you could concentrate all of them?

Mr. REYNOLDS. Yes, sir.

Senator CRAWFORD. If Senator Nelson's idea was carried out, that each bank's reserve should be kept in its vaults and held there alone, would not that be just the opposite of this theory of mobilizing all of these reserves in one big central reservoir?

Mr. REYNOLDS. It would; but in my opinion that would materially contract the amount of credit that could be extended safely. Any system that does not have some outlet for expansions of credit in times of need will be deficient.

Senator NELSON. Mr. Reynolds, you are objecting, and rightly I think, to two features of this bill: One is the compulsory feature requiring the banks to enter the system; the other is the compulsory feature requiring the central reserve banks to supply the demand for money. Is there not some compulsion in this system of reserves in requiring a country bank to deposit this money with your city banks for the purpose of giving you a larger loanable fund and a larger workable capital? Is not that a compulsory law in principle as against the country bank?

Mr. REYNOLDS. There is no such law. They may do it.

Senator NELSON. Would they not do it?

Mr. REYNOLDS. They may do it, if a man is conservative and applies your theory of maintaining reserves.

Senator NELSON. You do not come to the point. Under the law when you require a country banker to keep a certain amount of his reserves with you or some other bank, when you require the bank to do that whether it is willing or not, to enable you to gather up more funds to run your big banks and make your big million-dollar loans, is it not a species of compulsion as against the country bank?

Mr. REYNOLDS. No; because he does not have to do it to-day. There is no law that makes him keep it with the reserve correspondent, but he has the right.

Senator NELSON. He can keep it in his own vault?

Mr. REYNOLDS. Absolutely; if he pleases, he can do so to-day. The bill under consideration is compulsory in that respect, so far as our deposits of these reserves go.

I must cease here, because Mr. Hill wants to be heard, and we want him to be heard, but before doing so I want to touch one phase of this matter that has not been taken up, and I want to make a suggestion for the consideration of the committee. It is this: Whether or not some of these questions—I don't want to be understood as saying I could pretend to settle them—but whether or not some of these questions might not be minimized through the adoption of something along this line, namely, that the national banks in taking stock in these Federal reserve banks, instead of taking all of their subscription of stock in the Federal reserve bank in the community in which it would be situated, or in the zone in which it would be situated, that they take a proportionate interest in all of the Federal reserve banks, wherever they are located.

In the first place, would it not take away something at least of the sting in not being allowed representation; would it not also do away to a certain extent with the onus of one Federal reserve bank being obliged to rediscount for another? For instance, if I own or my institution owns stock in all the Federal reserve banks in proportion to my holdings of $105,000,000 of the entire capital of all and a condition would exist in this man's section at New Orleans where they needed more money, I would feel the need of protecting that just as much as the local man would; on the other hand, in Chicago or New York, where we would have a plethora of money which we would be glad to put out if it were safe to do it, would feel the same

anxiety to loan that money to the Federal reserve bank voluntarily that I would if I was dealing with these banks on an individual basis. I only offer that as a suggestion. I would like you to think it over. I have nothing more to say now in favor of it.

Senator NELSON. That is a very good suggestion, Mr. Reynolds, but you overlook the fact that it would neutralize that theory to keep away from Wall Street and a central bank. If you allowed the big banks of New York to subscribe in these other regional banks of the country, there would be great danger that Wall Street might dominate it.

Mr. REYNOLDS. Of course, I have a pair of glasses that can not give me a focus of that viewpoint, I am sorry to say, and I have been 33 years in banking, and I have the first time——

Senator NELSON. You must take this in a Christian spirit.

Mr. REYNOLDS. Certainly I will. [Laughter.] We will do that as far as we are able, but I have yet the first time to have anybody to try to influence me in the conduct of my business in its relations to some one else. I know that is a much-discussed question, and it is probably not best for me to try to discuss it here.

Senator NELSON. I do not want you to understand that that idea is bothering me.

Mr. REYNOLDS. I understand. In the organization, we will say, 5 of these Federal reserve banks which we have discussed and the problem of control, but if there was a general ownership, every bank that would go into the system would have a little ownership in each one of these banks, and the Federal reserve board should be made up of 11 instead of 7, of which the Federal reserve banks, 5 in number, should elect 5, the President appoint 5, and the Secretary of the Treasury should be a member ex officio.

I just wanted to put that in the record and have you think about it. I have nothing more to say on it.

Senator NELSON. You could modify your plan so as to have each bank have one representative?

Mr. REYNOLDS. Yes; That would be a good idea. I feel I have already taken up a great deal more time than I should. You gentlemen have been very patient this week.

Senator NELSON. You have been more patient with us.

Mr. REYNOLDS. It has been a pleasure for us to be with you, I am sure, because we recognize the immenseness of the problem which you are trying to solve, and we believe you are doing, and we hope you will believe we are, the best we can to help work out something which will be absolutely just and fair in all respects, and which will be workable and which will reflect credit upon not only the administration, but upon the American people, and which will insure a continuation of the prosperity that this great country enjoys. Possessing as we do to-day 40 per cent of the banking power of the world, we are not beginning to wield the influence or exercise the prestige that we should in the world's business, and with the modification of our tariff law, which, if I interpret it correctly, will mean we must depend more upon our ability to do a world business than we have ever done before, it seems to me that we ought to correct our system of banking and currency so as to put us in a position where we could compete

with the world financially. We ought not to pay tribute to England on every pound of coffee, tea, every pound of wool, and everything else that we import into this country.

Senator HITCHCOCK. If this bill is passed in anything like its present form, should there continue to be the distinction made between central reserve cities and reserve cities?

Mr. REYNOLDS. There should be none if this bill passed in its present form.

Senator HITCHCOCK. If it is passed in its present form, a bank will be allowed to count in its reserve four-eighteenths of what is required in Chicago, St. Louis, or New York?

Mr. REYNOLDS. That is, after 36 months. My figures are based on the ultimate period.

Senator HITCHCOCK. What is the ultimate period?

Mr. REYNOLDS. Thirty-six months.

Senator HITCHCOCK. After 36 months, then, all of the reserve of the bank must either be in its own vault or with its central reserve bank?

Mr. REYNOLDS. That is my understanding—regional reserve banks.

Senator BRISTOW. It is about lunch time, and we will want to ask Mr. Reynolds a good many more questions.

Mr. REYNOLDS. I am very anxious, if I can, to get away at 3.10. I do not know what the prospect will be. I should be very much disappointed if I do not. I have checked my baggage.

Senator BRISTOW. You never ought to do that when you are attending a hearing, until after the hearing is over.

The CHAIRMAN. I am sure the members of the committee, Mr. Reynolds, will not be here, on account of the conference which is to take place, and we particularly wish to hear you.

Mr. REYNOLDS. Of course I will remain if you wish. I am not generally regarded by my friends as being a quitter; so, if I am wanted, I will remain.

Senator NELSON. You are giving us much valuable information, and I feel very much obliged to you, and I hope you will stay with us.

Senator HITCHCOCK. In view of the fact that the Senate is to meet at 2 o'clock, and there will probably be some debate on Senator Weeks's resolution, I move that we adjourn the hearing of this committee until 3 o'clock, with the possibility that we might not convene until 3.30.

(The motion was carried.)

The CHAIRMAN. The committee will now take a recess until the hour stated in the motion.

(Thereupon, at 1.35 p. m., the committee took a recess until 3 o'clock or 3.30 o'clock this afternoon.)

AFTER RECESS.

The CHAIRMAN. The committee will come to order. Mr. Forgan, I understand that Mr. Hill will be the next witness. Mr. Reynolds will be heard after Mr. Hill gets through. It will only take a few moments, and then he will be open to cross-examination.

STATEMENT OF HON. E. J. HILL, VICE PRESIDENT NATIONAL BANK OF NORWALK, NORWALK, CONN.

Mr. HILL. Mr. Chairman and gentlemen of the committee, the two topics which I have been requested to present to you are different in character, yet having some relation to each other. The first refers purely to the mechanical part of the bill. It is found in section 16, and again referred to in the bill in section 21, the two provisions being somewhat in conflict with each other. The committee desiring to assist in the preparation of this bill in every way that it could, thought it was their duty to point out this inconsistency. I will be but a moment or two in doing it.

The law was changed in 1874. It now provides that the 5 per cent redemption fund for national-bank notes, which previously had been held as an entirely separate fund, should be put into the general funds of the Treasury. This section 16 which you propose provides that all of the funds of the Treasury which are now classed as general funds shall be transferred as deposits to these reserve banks which, of course, would take the 5 per cent redemption fund, it now being a part of the general funds of the Treasury.

It is true that this redemption could be carried on by some one of the Federal reserve banks acting as the fiscal agent of the Government. I will give you the statistical position of the fund in a moment, and without any argument submit the proposition on the statistics of the fund, that it would have to be by the Federal reserve bank, which is to be located in the city of Washington, or, much better still, continued as now by the Treasury Department with the present organization.

The CHAIRMAN. Mr. Hill, in fact the demands on the Treasury at times exceed $35,000,000, do they not?

Mr. HILL. That is just what I am going to show. I am satisfied that your judgment will be that conditions make it impossible to divide up this fund among the banks, and have the work done with the economy and satisfaction which now characterize it. The proposed bill distributes the fund but provides no new plan of redemption. The makers of this bill admit the necessity of its continuance when they require precisely the course of procedure for the redemption of the Federal reserve bank notes which is now going on with regard to the national-bank notes. But in the same bill they take out of the Treasury the machinery for carrying on national bank note redemption which they insist upon being put in operation by the Treasury with reference to the new notes. The two things are in conflict with each other.

The condition of that fund during the past year has been as follows—and I quote from the report of the Secretary of the Treasury:

> The average amount of national-bank notes in circulation during the fiscal year was $739,940,744, and the amount of such notes presented for redemption was $649,954,710, or 87.84 per cent of the average amount outstanding. The national-bank notes assorted and delivered during the year amounted to $645,011,311, of which $198,550,800, or 30.78 per cent, were returned to the respective banks of issue for further circulation. Redemptions of national-bank notes during the year have been constantly in excess of the 5 per cent fund required under section 3 of the act of June 20, 1874, to be kept by the banks on deposit in the Treasury of the United States for the redemption of their notes. Consequently that fund has been overdrawn during the whole year and the Treasury has had to advance payment for notes as they were presented out of the general fund. The largest overdraft was $26,927,389.52, on February 3, 1912.

Senator HITCHCOCK. This overdrawing is something new, is it not?

Mr. HILL. No, sir. It has been overdrawn 12 years out of the past 21. It is utterly inadequate to meet the requirements for the redemption of national bank circulation. I am going to show that.

Senator POMERENE. What do you mean by that statement, "during 12 years out of 21 years it was overdrawn"?

Mr. HILL. Yes, sir. If the gentleman desires to see the figures——

Senator POMERENE. Oh, no; I do not ask that.

Mr. HILL. I have the report of the Treasurer here, showing that for 12 years out of 21 years this fund has been overdrawn.

The CHAIRMAN. Fifteen millions has been overdrawn, has it not?

Mr. HILL. Oh, yes; twenty-six millions.

Senator SHAFROTH. The large amount that you have specified there as having been presented to the Treasury for redemption; was that presented to the Treasurer for the purpose of retiring the circulation?

Mr. HILL. I will give you exactly what was given to the owners as a substitute for that circulation. I have it all here.

Senator HITCHCOCK. Before you leave that point I would like to ask what per cent would be adequate if 5 per cent is inadequate?

Mr. HILL. I will take that up, too, under the new note provision, which will be my next subject.

There is to-day—or was a month ago—$43,889,222 of national-bank notes down here in the Treasury to be paid for by the banks, and I presume the condition is the same to-day.

Senator NELSON. What Mr. Hill means, Mr. Chairman, is with reference to notes of banks which have gone out of existence.

Mr. HILL. No; the notes of such banks are carried in what is known as the national bank note redemption fund. I am referring only to the 5 per cent redemption fund.

The CHAIRMAN. Yes; I understand.

Mr. HILL. It is an important part of this to show where these redemptions come from. Three hundred and twenty-seven million and a little more have come from New York City, 47 million from Boston, 43 million from Philadelphia, 13 million from Baltimore, 71 million from Chicago, 14 million from Cincinnati, 29 million from St. Louis, 6 million from New Orleans, and 95 million from all other places.

Senator HITCHCOCK. Do you mean they represented the notes of banks?

Mr. HILL. Presented by those banks.

Senator HITCHCOCK. Were they the notes of those banks?

Mr. HILL. Oh, not at all; there is no distinction made until the notes get down here. That would be one of the troubles in connection with the 12 reserve banks.

Senator HITCHCOCK. They send in indiscriminately notes from all over the country?

Mr. HILL. Yes, sir. With more than 7,000 national banks and with the enormous transactions shown, it is manifest that all redemptions must be in one place. Each bank when national-bank notes are received over the counter separates its own and bulks all others for exchange for reserve credit with its reserve agent, and the reserve agent forwards them in bulk for redemption and exchange for legal tender. That is your process, is it not, Mr. Forgan?

Mr. FORGAN. Yes, sir.

Mr. HILL. And yours, Mr. Reynolds?

Mr. REYNOLDS. Yes, sir.

Mr. HILL. To distribute this 5 per cent fund among the Federal reserve banks and require them to make redemptions would enormously increase the redemption charges. Of the 645 millions assorted during the year less than 200 millions were in good condition; 417 millions were destroyed and reissued. The reissued notes were taken from the stock printed here and kept on hand at the Bureau of Engraving and Printing, and the supplementary process completed in the Treasury Department and the record made. Twenty-eight millions destroyed and finally retired. It shows the necessity for the retention of the necessary funds for doing this work by the Government or some one central agency. Indeed, as stated, in providing for the redemption of the new Federal reserve notes, this bill calls for a 5 per cent redemption fund to be kept in the Treasury. The necessity for its continuance in the case of the present national-bank notes during the remainder of their life is manifestly far greater.

I want to call your attention to one other thing. The Senator from Minnesota (Mr. Nelson), so far as I can judge, during these hearings has advocated the reduction of the reserve, and I think the Chicago conference advocated the reduction of the reserve, and the bill itself advocates the reduction of the reserve. To the New England banks it does not make any difference whether you reduce it or not. You are looking at the question from one standpoint and we look at it from another. We have got to keep a larger reserve than is provided for in the bill. You can not say to a New England bank in a manufacturing community with its pay rolls made up every week that that bank can allow itself to run down to 10 or 12 per cent. It has got to keep 20 or 25 per cent in a country bank in a manufacturing town with pay rolls weekly. The situation is entirely different from what it is in a farming community.

Senator HITCHCOCK. I want to ask you a question before you get away from that point. I want to ask you whether the presentation for redemption during 12 months of 87 per cent of this bank currency does not indicate that it is an inferior currency?

Mr. HILL. It indicates that it is a rigid currency, not elastic. The first thing I ever had to do with a bank was when I was a boy. I had to sweep the bank out and count redemptions. Our redemptions averaged——

Senator HITCHCOCK (interrupting). And under this bill we could naturally expect that the redemptions would run up to about 87 per cent?

Mr. HILL. Oh, they would be once in six weeks.

Senator HITCHCOCK. Would be what?

Mr. HILL. About once in six weeks.

Senator HITCHCOCK. So that they would be constantly presented for redemption?

Mr. HILL. Yes. Without redemption you have a perfectly rigid currency.

Senator HITCHCOCK. It simply goes in and comes right out again, I understand?

Mr. HILL. It comes in and goes out again to perform a new transaction. It might perform a transaction in Kansas and the next day perform a transaction in North Dakota.

Senator HITCHCOCK. But all through the year we still have about $700,000,000 of national-bank notes?

Mr. HILL. Oh, yes; either in use or idle in the vault of the bank.

Senator HITCHCOCK. Because the banks do not want them and want to get rid of them and want reserve money?

Mr. HILL. Yes; they want to keep their own notes in use and exchange the notes of other banks for reserve money. Mutilated currency also must be exchanged for new notes.

Senator HITCHCOCK. Does not that argue in favor of providing an increase of the reserve money instead of providing an increase in inferior currency?

Mr. HILL. That is another matter. I am merely giving the statistical position of the 5 per cent fund now, and leave its disposition to the judgment of the committee. The facts will show as they are submitted here and you will find them in full detail in the Treasurer's report. I think you will find that it will be impossible to make the change in the national-bank redemption business called for under the terms of this bill. I doubt the wisdom of changing the present plan.

Senator HITCHCOCK. The reason they are sent in for redemption so rapidly is because they are not legal tender?

Mr. HILL. No. That is only one reason.

Senator HITCHCOCK. What is the reason?

Mr. HILL. They are not sent in fast enough. They go in to get legal tender and to keep their reserve credit at their reserve bank.

Senator HITCHCOCK. Yes. Now, if you provide legal tender——

Mr. HILL (interrupting). That is only one reason. The other reason is this: Each national bank, of course, wants to keep its own notes in circulation, and one of the inspiring causes for sending others in, aside from legal tender, is that if they can get rid of the other bank's circulation it makes a gap to insert others.

Senator HITCHCOCK. But there has not been any increase in the legal tender; it is a nominal increase during the year. The banks can easily put out more legal tender, if they desire. All they have to do is to buy more bank notes, if they desire.

Mr. HILL. I do not want to exhaust my time on the 5 per cent redemption fund which I consider a comparatively unimportant topic; but let me call your attention to the terms of this bill, which I am sure you will amend in some way, where you propose to cut down the reserve of the country bank from 15 to 12 per cent. As a matter of fact, in most country banks you actually increase it, notwithstanding your proposed reduction from 15 to 12 per cent. Take a bank of $100,000 capital and deposits around $150,000 to $200,000—certainly $150,000 would be fair for most New England country banks. You take away the privilege of counting this redemption fund as a part of our reserve, and yet we have got to keep it in lawful money.

Senator NELSON. But that is only 5 per cent on circulation.

Mr. HILL. But I have made the calculation on the basis of a bank with $100,000 capital.

Senator NELSON. The country banks have not taken out their circulation.

Mr. HILL. Most of the banks have. The city banks have not.

Senator NELSON. The country banks have?

Mr. HILL. But the city banks have not. The country banks, most of them, have taken out the circulation to the full amount of their capital; and it depends entirely on the ratio of their deposits to their capital as to whether you reduce the reserve or not, notwithstanding you have cut down the required amount from 15 to 12 per cent.

Senator HITCHCOCK. This redemption of their notes would be enormously increased, would it not, it it were not for the fact that the State banks can hold them as reserves?

Mr. HILL. Yes; the State banks do that. The trust companies can hold them. I do not think there are many States in the Union that prescribe that the reserve of State banks and trust companies shall be in legal tender. I do not think our law requires that New England savings banks shall have legal-tender reserves. I think there are three savings banks in the town in which I live, a town of 26,000 people, and their deposits will run up to five or six millions. I think they are required by law to keep a 3 per cent reserve, but I do not think it specifies that it shall be in either gold, silver, greenbacks, or bank notes. That law has been enacted within five years. They were not required by law to keep any, formerly; but, of course, they are not institutions organized for profit; they are purely mutual, without any stock, the depositors owning them.

The CHAIRMAN. Do you happen to know what percentage of these national banks' currency is sent in for redemption in a mutilated condition?

Mr. HILL. Yes, sir. I think 28 millions out of that lot was destroyed as unfit for circulation last year.

Senator SHAFROTH. How much was sent in for retirement?

Mr. HILL. There is now, I think, something like $20,000,000 of lawful money which could go into the Federal reserve banks with perfect propriety. Still, I think it would be better to keep it where it is. Twenty million dollars of lawful money reported in this statement of July 1, which represents retired national-bank circulation paid for in lawful money, and the fund is held here as a trust fund waiting for it to come in. A good deal of it never will come in, and the Government will get the profit of the loss or destruction. Whatever went down on the *Titanic* will be profit to the Government. The money has been held as another trust fund under the name of "The national bank note redemption fund".

The CHAIRMAN. Under the Suffolk plan, which required this constant redemption, to which you referred as the New England plan, there was no way provided for the redemption except sending it back to the bank and having it redeemed?

Mr. HILL. It did not go to the bank at all direct. It all went to the Suffolk Bank in Boston. There it was assorted, made up in bundles once a week and the notes of each bank sent home. It was my business to count these, and take out the soiled and torn notes, and do them up again according to the denominations ready to be paid out again over the counter.

The CHAIRMAN. Under this bill, it being provided that the volume of the currency issued as Treasury reserve notes shall be limited to the commercial paper of like volume transferred, and that when that commercial paper is retired, like money, it shall be restored, would not that automatically retire such notes?

Mr. HILL. Absolutely, unless other commercial paper was substituted, as the bill provides may be done.

The CHAIRMAN. Therefore that system would also serve to retire such outstanding notes, would it not—the system of retiring this commercial paper?

Mr. HILL. Yes; unless substitution was made as stated. I am going to talk along that line now.

My second subject is:

Why the notes should be issued by, and be in fact the obligations of, the Federal reserve banks instead of the Government.

I tried to boil this argument down to 15 minutes. It ought to take 30 days. [Laughter.]

In my judgment, the Government has no right to issue them in the form and manner which the bill proposes.

Under its sovereign power it can, through Congress, borrow money on the credit of the United States, coin money, regulate the value thereof and of foreign coin, and provide for the punishment of counterfeiting the securities and coin of the United States.

These new notes are not money, not legal tender; they are to be loans of the credit of the whole people, for a usage charge paid by 12 or more specific banks which are to be created.

Senator WEEKS. They can be made legal tender by act of Congress.

Mr. HILL. I do not think that would alter the situation materially if the same use was made of them; but under the terms of the bill—and I am discussing this proposition from the basis of the terms of the bill—they are obligations of the Government for which the United States has received nothing and for the payment of which at any time it assumes the responsibility looking to the Federal reserve bank to recoup itself. The notes, under the terms of the bill, would be unquestionably good if issued by the banks alone. Why should the burden of current redemption be placed on the Government and the banks also and the cost to the people greatly increased for both the loan and its responsibilities? Irredeemable Government demand notes are robbery and redeemable ones are dangerous and expensive.

The nations with which we will have to compete in the future have long since stripped themselves of the very burdens which we propose to assume needlessly. Why should we not profit by their experience? Great Britain coins gold as full legal tender, silver as subsidiary coin, and stops there. The Bank of England issues its notes and is bound, by redemption in gold, to maintain their parity.

Germany, with true German persistence and thoroughness, has dug herself out of the morass of the different State system of fiat money and, like England, is now coining full tender gold and limited tender silver, and the Imperial Bank issues bank notes and maintains their parity by gold redemption.

The Bank of France issues the circulating notes, and redeems them in the coin of the realm.

They stand on solid ground, stripped to the waist for the keen contest which is sure to come under our new revenue policy, throwing upon the banks the burden of securing and maintaining a sufficient supply of the world's redemption money—gold.

What we ought to do, in my judgment, and do it now, is to adopt a like policy here, and so meet them face to face with a footing as sure as their own.

This bill puts the Government squarely into the banking business, as a business for profit, and every cent of the cost of the business and

profit as well will in the end be paid by the consumer of foreign and domestic products.

A bank is organized to loan credits. A government is not. A bank has convertible assets to meet its liabilities. A government has nothing but its taxing power. A bank note is in effect a check at sight upon the bank reserve, and in practice is exchanged as a demand credit instrument for the promissory notes of its customers, payable at fixed dates.

A wise adjustment of due dates of loans, coupled with long experience as to the life of the bank note, fixes the amount of reserve necessary to be held against them. The security for their payment is the reserve, the distributed payment of customers' time notes, and the capital and surplus of the bank as a margin.

A government possesses no such margin of safety in the form of capital and surplus. It has no constantly inflowing stream of assets, except its revenues, which have, by appropriations, been pledged in advance to other uses. It possesses none of the functions of a bank, and there is no reason why it should have them, for it deals with past expenditures of its own, while banks handle future commercial transactions of its customers.

The authors of this bill, evidently desiring to put the general credit of the Government behind the credit instruments which the Federal reserve banks may use, have invested the Federal reserve board with all the note-issuing power of a central bank and made them the judges of the pledged collateral security for the issues, and with the first lien on all the assets of the Federal reserve banks which the law gives the final payment of the Government notes will be unquestionably secure, for aside from the pledged security and capital and surplus of the Federal reserve banks every dollar of the reserve deposits of all the member banks becomes by that lien an additional guaranty of the skill, ability, good judgment, and banking experience of the Federal reserve board and of their intimate knowledge of the credit of the pledged collateral.

The final payment of the Government obligations will be certain, but it would seem to me that in an honest effort to reform our currency system and to make it more elastic and responsive to trade requirements the bill tends to a complete control by the Government of the individual credit of the people. Our people in New England look at it in that way.

Personally, I do not think this is necessary or wise, or that it is a proper function of Government under our system. In my judgment, the machinery by which the bill proposes to do this will not work in actual practice. The note issue must either be by the banks or by the Government. It can not be by both and maintain current redemption except at enormous cost; and without such current redemption a credit instrument put out to circulate as money but without the legal tender quality is of little use, regardless of the certainty of its final payment and retirement.

In effect, as originally prepared and as last published in the papers, the currency note which the bill contemplates is a joint and several note of the General Government and 12 Federal reserve banks redeemable at the Treasury in Washington and by all of the Federal reserve banks in gold, on demand. It is a legal tender to any of them, by any individual and by all of the 25,000 banks of the country.

The amount of the issue is unlimited except in the judgment of the Federal reserve board.

Is it not clear that each one of these parties to this obligation, regardless of their final responsibility to each other, must be ready at all times to currently redeem whatever portion of the entire issues may be presented in the ordinary course of business, and in times of stress and emergency to redeem in very much larger amounts?

I think every one of you will admit that.

Under these circumstances the reserve provisions and redemption power of each of the parties becomes all important. What are they?

First, the Federal reserve bank. The notes are loaned to it by the Federal reserve board on an interest charge fixed by them. Collateral is segregated in the vaults of the bank itself, and no reserve is required until the notes are actually paid out, and then only to the amount of one-third of the notes paid out by it.

In those parts of the country where bank capital is superabundant and deposits are large, by reason of business being conducted on actual investment, rather than being based on future contingencies, it is fair to assume that the Federal reserve bank so located may see neither profit nor necessity for taking out notes, and consequently will have no need whatever for a note reserve in the performance of its duty toward its locality. And yet its responsibility in law for current redemption of notes issued by other banks is just as great as is that of the Federal Treasury, which compels all of the issuing banks to maintain a redemption fund of 5 per cent with it.

Second, no matter where located, each Federal reserve bank is only required to maintain a redemption reserve of one-third of its own actual note issues, but assumes the burden of responsibility of redemption of the notes of all the other banks. Would not such a redemption system break down in the first approach of panic, or general liquidation of foreign and domestic credits?

Third, the Federal Treasury is also responsible for the payment in gold on demand of all of the notes which the Federal reserve board may have authorized, reserving to itself the right to require a deposit in the Federal Treasury of 5 per cent of the amount so authorized, whether the notes have actually been paid out or not by the Federal reserve banks, or even if they are stored in their own vaults for future use.

I do not want to misrepresent anything. This bill as first brought out, gentlemen, was a straight gold-redemption bill and announced in the papers as an administration measure, and I held up both hands in joy. The redemption machinery was not satisfactory. The reserve provisions were changed and the new bill published in the Journal of Commerce in its issue of the 25th of July, and then changed again and published in the New York Evening Post of August 11, providing for redemption in lawful money, which means gold, silver, or greenbacks. I do not know why these changes have been made four times since the bill was drafted. I am simply discussing now the basis on which I hope this committee will finally put the bill through as it started, as an administration measure, with the notes redeemable in gold.

Senator HITCHCOCK. What does "lawful money" mean?

Mr. HILL. Gold, greenbacks, or silver—nothing else.

Senator HITCHCOCK. Of course, greenbacks are as good as gold, are they not?

Mr. HILL. Silver dollars are also the equivalent of gold if their parity is maintained by exchangeability for gold under a Treasury order, to which I shall refer before I get through.

Is 5 per cent enough? If so, why is the bank required to keep intact a 33⅓ per cent reserve? With these notes made the direct obligation of the Government, instead of the banks, and redeemable on demand in gold by the Treasury, no man can point to any difference in the redemption responsibilities of the Treasury between this new greenback and the old one, of which we have 346 millions still outstanding.

Understand me, I am referring to current redemption.

The bitter experience of the past has taught us that a $100,000,000 fund, or 29 per cent of the whole, was not sufficient to maintain their parity when the demand for gold became urgent, and $250,000,000 of bonds marketed at great cost are a monument to the unwisdom of issues of Government demand obligations.

Senator NELSON. But that was chargeable to the silver-purchasing clause.

Mr. HILL. Yes; and the deficiency in the revenues. Who knows whether there will be a deficiency again?

Senator NELSON. You could not charge them to the greenbacks.

Mr. HILL. I am saying that the current redemption responsibilities of these two classes of notes, so far as current redemption is concerned, is indistinguishable. By the gold standard act of March 14, 1900, the reserve against the 346 millions of the old greenbacks was increased to 150 millions, or 43 per cent, and with it authority given for an unlimited bond issue besides. With identical responsibility for redemption at the Treasury, and with the Treasury stripped of all other current funds by compulsory deposit of them in the banks, who can justify pinning the credit of the Nation to a 5 per cent redemption fund, for the one issue, and the maintenance of 43 per cent reserve for the other? The 5 per cent redemption fund for national-bank notes is cited as such justification. The argument is not a good one. The conditions of that fund for the past year have been explained. There has not been a minute when it has not been overdrawn, the overdraft running as high as 26 millions in February and ending the year with an 8-million deficit.

The statements of August 1 shows almost 44 millions of national-bank notes in the Treasury to be redeemed by the banks, and only 26 millions to the credit of the 5 per cent redemption fund. And this is in a normal business year.

Soon after the panic of 1907 and when currency had again become redundant, when studying the provisions of the Vreeland-Aldrich bill, I visited the redemption bureau of the Treasury and saw there a room full of national-bank notes, piled against the walls to the ceiling, sent back for redemption. My recollection is that there were more than $40,000,000, unassorted, paid for by the Treasury, waiting to be separated and charged up in the respective amounts, for which each of the 7,000 national banks was liable.

There is one trouble. They have got to assort them and separate them, and it may be weeks and weeks afterwards before they get their remittances from the banks.

Senator NELSON. Suppose the notes are retired when redeemed, like the Bank of England notes?

Mr. HILL. They have got to be assorted. There are 7,000 national banks, and it takes time to do it when they come in in bundles.

Why, Mr. Chairman, I saw bundles of notes down there in the original packages in which they were shipped, with the strings uncut, and with the Treasury seal on them, sent out in the latter part of the panic of 1907, and when the panic was over immediately returned for redemption, unused.

From the report of the Treasurer for 1912 I imagine the conditions are not very different now, for he strongly urges the necessity for increasing the fund. But the difference in the character of the two issues is very great. The national bank circulation is practically a loan on the Government bonds, by which they are secured and to carry the profit of more than 1 per cent above the normal discount rate. No reserve is required against it, and it has become a fixed and rigid part of our circulating medium. Its average life last year was 7 months. The issue under this bill is taxed at its source, and the redemption forced under the provisions of the bill. It is practically an emergency circulation, securing its elasticity by frequent redemption and retirement and reissue.

The gold standard act of March 14, 1900, made a dollar consisting of 25.8 grains of gold, nine-tenths fine, the standard unit of value, and declared that all forms of money issued or coined by the United States should be maintained at a parity of value with this standard, and that it should be the duty of the Secretary of the Treasury to maintain such parity.

No backward step should now be taken.

The requirements of trade will send the great bulk of these notes, as in the case of national-bank circulation, but with accelerated speed, through New York City into the Federal Treasury, and unless the gold-standard act is to be in effect repealed, they must there be redeemed by the Treasury in gold, and the burden of securing and maintaining the gold supply of the country, now borne by the Treasury, very materially increased.

By making the note issues the obligations of the Federal reserve banks, and each one responsible for the gold redemption of its own issue, the burden would be placed where it belongs, upon the banks which receive the benefit and where the facilities for carrying that burden exist.

We have now, as Treasury obligations, in round numbers, greenbacks, $346,000,000, redeemable in gold; national-bank notes, $725,000,000, redeemable in legal tender; silver dollars, $565,000,000, exchangeable for gold; making a total of $1,636,000,000.

Immediately after the passage of the gold-standard act, making it the duty of the Secretary of the Treasury to maintain the parity of all forms of money issued or coined, Mr. Gage was asked the question:

How do you propose to perform your duty with reference to the silver dollars?

His reply was that there was only one way in which it could be performed, and that was to make them exchangeable for gold on the demand of any citizen of the United States; and the order was issued, and my recollection is, or my impression is—and I would be glad to have the committee ascertain the fact—that it is still in existence in the Treasury Department, and the Treasury Department is performing that function. That is responsible for 565 millions.

Senator NELSON. Is there any record of silver dollars presented for redemption in gold?

Mr. HILL. Are there any such cases?

Senator NELSON. Yes, sir.

Mr. HILL. I do not know. I do not know whether any records have been kept by the Treasury Department. That could be ascertained. I would be very glad if the committee would ascertain that from the Treasury Department.

This bill proposes an unlimited issue of further Government demand obligations to be superimposed on such a foundation as this.

The Bankers' Association proposes that the Federal reserve banks make their own obligations, secured by the same collateral, with a reserve of 40 per cent in gold instead of 33⅓, and bear all the burden and cost of redemption.

These men ask it, not for profit to themselves, for not a dollar of these notes will be issued by them, but all will be the obligations of the one or more Federal reserve banks which the bill creates.

The existing banks ask it for the common good, and in the honest belief that the world's experience and our own for the past 50 years should not be ignored.

That is all I have to say, gentlemen.

Senator HITCHCOCK. The question was asked whether or not silver was sent to the Treasury for exchange in gold.

Mr. HILL. I do not know. But I will state to you, in my judgment, that with an unlimited issue of paper money, redeemable in silver or greenbacks, the first tendency of the gold now in the United States would be to leave the country, and silver dollars would very soon be presented for exchange for gold, if they are not now.

Senator HITCHCOCK. Do you think that any quantity of bank notes would be injected into the currency which would result in driving gold out of the country?

Mr. HILL. Not under the terms of the bill proposed by the Bankers' Association, for this reason: Under the terms of the bill proposed by the Bankers' Association there is no more profit to the Federal reserve bank in discounting paper and paying notes over than there is in giving a book credit. Indeed, not quite as much. The only reason for issuing a note at all, Senator Hitchcock, is that there are times in the different seasons when a man can not pay off his cotton pickers and his orange pickers and his harvest hands in checks. He has got to have actual money or a substitute for it. This bill provides that you may take those substitutes in the form of currency, and if they are made absolutely safe, there is no difference to the bank or the borrower so far as the discount transaction is concerned. They would give him credit on it. Instead of his drawing his checks, they could give him bank notes if he preferred.

Senator HITCHCOCK. I want to ask you under what circumstances the Gresham law operates to drive gold out of the country?

Mr. HILL. Simply that it is the most valuable thing as the world's medium of exchange, and a man will want to hide it.

Senator HITCHCOCK. Let me ask you whether a gold certificate is not more valuable than a bank note?

Mr. HILL. No; not if the bank note is absolutely redeemable in gold. A Bank of England note is as good as our gold certificate anywhere in the world.

Senator HITCHCOCK. Does not gold go out of the country if the currency becomes redundant?

Mr. HILL. Yes, of course; if the currency becomes redundant.

Senator HITCHCOCK. What is to prevent the currency becoming redundant under the system where there is an unlimited bank issue of notes?

Mr. HILL. It simply can not, because they can not issue any except they have a 40 per cent reserve, under the terms of this bill. They have got to pay gold, and the whole thing has got to respect the business activities of the country, and be gauged by the supply of gold.

Senator HITCHCOCK. Not under the terms of the bill——

Mr. HILL. I am talking about the amendments which these gentlemen propose, which I hope from the bottom of my heart will be accepted. That is my hope as a country banker, from a State that has not a reserve bank in it. When this bill came before the Association of Bankers of the State of Connecticut I think it was unanimously voted not to be accepted by them. The same thing has occurred in Vermont, I think. They are willing, under any safe and sane plan, to make the sacrifice for the general good, of uniting in massing the reserves of this country to meet the emergencies of the future. That is the sum of the whole business; that is all there is to it, if it can be done on a perfectly safe basis.

Senator HITCHCOCK. I want you to state specifically whether, if the currency became redundant by an excessive issue of credit money, gold would leave the country?

Mr. HILL. I do not see how currency could become redundant under the bankers' plan.

Senator HITCHCOCK. I am not saying that. I am asking you to suppose it.

Mr. HILL. Oh, I think it would. That is the reason I voted against the Vreeland-Aldrich bill. I thought it would be inflation.

Senator HITCHCOCK. This bill provides no limit, and your measure provides no limit to the volume of credit currency which it is proposed to issue.

Mr. HILL. Oh, I do not think that this bill, even if drawn on the basis of the redemption features which are contained in your bill, would prove an inflation measure. I think it would be scientifically wrong. I think the trouble about the bill is that while it would not be an inflation measure it would break down in operation and would break the Treasury of the United States or else compel them at their expense to furnish the gold as the basis for redemption.

Senator HITCHCOCK. I quite agree with you that the failure to provide a redemption from the gold in the Treasury is a vital one in the bill; but I think, also, your scheme is defective, because you provide no limit upon the issue of a credit currency; and the result might be an inflation or a redundancy.

Mr. HILL. There is a limit of 40 per cent reserve. It can not go beyond two and a half times that reserve in gold.

There was a new feature which came to me at Chicago. I had never thought of it before. I had always believed that a perfectly safe measure would be a 50 per cent reserve in gold and the balance covered by good commercial paper—which, if I am not mistaken, is the German policy, is it not, Mr. Forgan?

Mr. FORGAN. Yes, sir.

Mr. HILL. You have 33⅓ per cent in gold. The banks' suggestion is 40 per cent, and both of you cover the entire amount of the paper by acceptable commercial credits.

Mr. WEXLER. Accruing in 90 days.

Mr. HILL. Accruing in 90 days.

Senator HITCHCOCK. You spoke of 40 per cent gold reserve, and yet every bank of issue in Europe carries a much larger reserve.

Mr. HILL. Yes, sir; as a matter of choice.

Senator NELSON. But, gentlemen, will you allow me to state in this connection that the volume of currency should be measured, not by the gold reserve, but should be measured by the amount of commercial loans that are made?

Mr. HILL. Both.

Senator NELSON. No, no. This currency is issued on commercial loans, such loans as provided in the bill.

Mr. HILL. Let me ask you this question, Senator Nelson: How can the volume of currency with a 40 per cent gold reserve exceed two and a half times the reserve?

Senator HITCHCOCK. That is another condition.

Mr. WEXLER. Your statement is erroneous in this respect: The credit is covered by the amount of commercial credit, and the amount of notes is regulated by the amount of gold against it.

Mr. HILL. These gentlemen have great interests, which they have to look after. My time is my own. I will be glad at any time next week or after, if you desire to cross-examine me, to come down and submit myself for your examination, and I hope some word that I have said has had some influence upon your determination of this matter.

I want to say to the gentlemen of the committee that the reason I am here is that I went to that conference in Chicago as a delegate from the State Association of Bankers in Connecticut. These gentlemen were strangers to me, most of them, at that time. I was appointed on the committee by which these resolutions were made. I do not know the politics of these gentlemen. There is not any political consideration in any recommendation that is given to you. There has not been during that Chicago conference any mention of politics.

The CHAIRMAN. I do not think, Mr. Hill, that any intimation of that nature has been suggested by the committee.

Mr. HILL. No; but I want to refer to the fair way in which this whole thing has been done.

There was one motion made on that committee, and I made it myself. When they said, "We recommend one central national bank or, if for political considerations that can not be obtained"—and I moved to strike out "for political considerations," and it was stricken out. That is the only political reference that has been made in this conference, all the way through, straight down to the present time. And I believe, Mr. Chairman, that no man ever came before a committee of this kind with purer motives or clearer intentions to act for the best interests and welfare of this whole country than these gentlemen here to-day.

The CHAIRMAN. You think that a redundant currency would retire gold or cause gold to go in hiding?

Mr. HILL. I think that has been the experience of all mankind for the last 50 years, since the Gresham law was enunciated.

The CHAIRMAN. You thought that the Vreeland-Aldrich bill would make a redundant currency, did you not?

Mr. HILL. And I voted against it—1 of 16.

The CHAIRMAN. Can you tell me how much redundant currency there would be under that bill?

Mr. HILL. I prophesied at the time, if the bill was carried out authorizing the issue of notes on the basis of existing debts without any reserve, that it was bound to result in inflation. Besides, the Vreeland part of that bill made a general partnership of all the banks of each district.

The CHAIRMAN. That would have been impossible.

Mr. HILL. Absolutely impossible.

Senator HITCHCOCK. Do you not propose to have the banks go into partnership?

Mr. HILL. Only to the extent of a limited joint partnership; not a general partnership.

I want to correct another statement made here. That bill did not pass as a result of a Republican caucus. There never was a Republican caucus on that, or any other legislative question during the 18 years I was in Congress. Every man stood as an independent representative to vote as he saw fit, and 16 of us voted against the Vreeland-Aldrich bill.

The CHAIRMAN. Will you not sit down and let me ask you a few questions?

Mr. HILL. Certainly. I thought you were through with me and wanted to let these other gentlemen take my place.

The CHAIRMAN. No; I want to ask you a few questions, if you will permit me to do so.

Mr. HILL. I would be glad to.

The CHAIRMAN. Is it not a fact that the Bank of England, whose stock is owned by private persons, that the Bank of Germany—the Reichsbank, so called—whose stock is owned by private persons, that the Bank of France, whose stock is owned by private persons, issue legal-tender notes?

Mr. HILL. Yes, sir.

The CHAIRMAN. Is it not a fact that the Supreme Court of the United States has declared that Congress has the right to issue legal-tender notes?

Mr. HILL. Yes, sir; as a war measure.

Senator NELSON. Oh, no.

Mr. HILL. I differ with you.

Senator NELSON. That was the case at first, and then, afterwards, it was given as a peace measure.

Mr. HILL. But the Government would not get value received for this legal tender, and they would not get a cent except for the use of it. You can not loan our credit as individuals to 12 banks. That is a legal proposition that I do not care to discuss, however.

The CHAIRMAN. I am not discussing it; I am merely asking for your evidence as a witness. I am not asking you for the reasons, but for the facts, desiring that the facts show on this record from you.

Mr. HILL. I will answer that, so far as the German bank is concerned, it is organized in no such way as this is.

The CHAIRMAN. That is not the question. Do they issue legal-tender notes?

Mr. HILL. They have the right to issue legal-tender notes.

The CHAIRMAN. Does the Bank of France?

Mr. HILL. Yes, sir.

The CHAIRMAN. Is not that true, then, of the Bank of England and Germany and France?

Mr. HILL. Yes, sir.

The CHAIRMAN. That is the point I wished to have in the record.

Mr. HILL. These notes would be legal tender for the banks chartered by the United States Government, but I do not believe the Government would ever attempt to make them legal tender between individuals. They have the right absolutely to make them legal tender between their own creatures.

The CHAIRMAN. I am not speaking of the right, I am speaking of the fact.

Mr. HILL. Somebody will raise the question of right before this matter is finished.

The CHAIRMAN. Probably; and I have no objection to your raising it before you get through. I would like to ask you if it is not also a fact that nineteen-twentieths of the redemption of the national-bank notes is due to the fact that these notes in gold get legal-tender money?

Mr. HILL. No, sir; I do not think so at all. I think you are entirely mistaken. I think the bulk of the redemptions is shown by the statements here that the banks send their notes through the New York, Chicago, and other reserve centers, to get reserve credit on them, and they send them to Washington to get reserve money.

The CHAIRMAN. What is reserve money?

Mr. HILL. Reserve money, under the law, for a national-bank note, is a greenback. In fact, it is now gold, silver, and greenbacks.

The CHAIRMAN. Then you have answered my question affirmatively?

Mr. HILL. Yes, sir. The Government has an absolute right to make any requirement that it sees fit concerning its own creatures. But you do not for a moment think they could make regulations concerning the operations of State banks and trust companies, which constitute two-thirds of the banks of the United States?

The CHAIRMAN. I am trying to elicit certain facts from you, as a witness.

Mr. HILL. Yes, sir.

The CHAIRMAN. You said a few moments ago that 28 millions out of 600 millions of national-bank notes were redeemed on account of their being mutilated currency?

Mr. HILL. I said that as a matter of memory.

The CHAIRMAN. That is near enough to serve the purpose of my inquiry.

Mr. HILL. I think it was 28 millions destroyed and retired.

The CHAIRMAN. So that, out of 600 millions, 28 millions were redeemed and canceled because mutilated?

Mr. HILL. Yes.

The CHAIRMAN. That is less than 5 per cent, is it not?

Mr. HILL. Yes, sir; less than 5 per cent. Let us be correct. That was simply because it was destroyed and mutilated. Four hundred millions were destroyed and canceled because of their condition and reissued. But the 28 millions which I have referred to were mutilated

notes sent in by the Subtreasuries whose duty it is to select them out whenever they come into the Subtreasury; and they were destroyed and retired. The business of the Subtreasury is to clean up the note condition, so far as it comes to them.

The CHAIRMAN. You spoke of these notes as being unlimited. Are not these Federal reserve notes proposed by this bill really limited in volume to the amount of a certain commercial paper, or the qualified notes turned over to the Federal agents?

Mr. HILL. Some people disagree in regard to that.

The CHAIRMAN. So that it does not go beyond that limit?

Mr. HILL. Oh, not at all.

The CHAIRMAN. And when that commercial paper is retired, these notes can be returned to the Federal agent for retirement from circulation?

Mr. HILL. Yes, sir. I said in the beginning that the notes under this bill are absolutely good. I started with the proposition that they were absolutely good, just as good as the proposition submitted by the Bankers' Association.

Senator NELSON. There is one thing that is not clear to my mind. Where are these Federal reserve banks to get the gold? What provision is there for them to secure the gold?

Mr. HILL. That is their business. Do not shove it onto the United States Treasury. They have got to get it.

Senator NELSON. No; but whether it is the United States or the banks, in either case what provision is there in here for it?

Mr. HILL. The gentleman from New Orleans will buy bills of exchange on cotton, if it is to his advantage to do it. The gentleman from Chicago will buy bills of exchange on some other commodity. It is the business of the banks, just as it is the business of the Bank of England to get its gold from us or elsewhere. And why shove it onto the United States Treasury, already having 1,636 millions to be responsible for?

Senator NELSON. How many of these reserve banks will be trading only in secondhand——

Mr. HILL (interrupting). Oh, they will trade in first hand, the principal banks. The reserve banks have it as a part of their business.

Senator NELSON. But they do not trade in these products they bring in from abroad?

Mr. HILL. They trade in the paper that represents the products, and in so doing practically trade in the products.

Senator CRAWFORD. Will these notes have to be redeemed in gold when they are presented to the Treasury of the United States?

Mr. HILL. Absolutely, under the terms of this bill.

Senator CRAWFORD. Where is the United States to get it?

Mr. HILL. That is where the machinery will break down.

Senator CRAWFORD. The bill does not specifically provide a method by which the Treasurer is to keep the gold there to redeem them when they are presented there.

Mr. HILL. That is precisely the point that I am presenting to you. You have a 43 per cent reserve now for the old greenback, and this bill provides for a 5 per cent reserve for the new one, with the same redemption responsibilities.

Senator CRAWFORD. Apparently that is a weak link or a missing link, in the bill.

Mr. HILL. I think that in operation it would prove a breaking link.

Senator NELSON. What do you make out of this provision? I will read it:

Whenever the Federal reserve notes issued through one Federal reserve bank be received by another Federal reserve bank, they shall be returned for redemption to the Federal reserve bank through which they were originally issued.

Now, listen to this:

Or shall be charged off against Government deposits and returned to the Treasury.

They are charged off against the deposits that the Government has in these banks?

Mr. HILL. They may be.

Senator NELSON. Without regard to the 5 per cent?

Mr. HILL. Yes, sir. I have looked at that with a great deal of care, and have said to myself:

How on earth will the Treasury at Washington, which is keeping these accounts by book accounts, know whether they can draw on a Federal reserve bank, when possibly two days before a million reserve notes have been charged up against their balance of a half a million and they are overdrawn already?

I have not attempted to solve that part of it.

Senator NELSON (reading):

Or shall be presented to the Treasury for redemption.

In other words, when a reserve bank gets those notes, if they are the notes of another bank, they can do one of two things: Either charge it off against the Government deposits or forward it to the Treasury for redemption?

Mr. HILL. Senator, you will find it all full of just such difficult problems for solution; and it all comes right down to this, that that note is a joint and several note of 13 persons or artificial persons.

Senator NELSON. I should put it in another form: It is the note of the United States guaranteed by the original reserve bank.

Mr. HILL. I am speaking of the redemption responsibilities only—the machinery part of it—that can not be carried out in the form in which it is proposed.

The CHAIRMAN. What is the difficulty, Mr. Hill, if this note is to be charged against the Government deposit of a reserve bank? Suppose that the Government has no deposit there; then it has the option of sending it in for redemption. What is the difficulty about that?

Mr. HILL. Oh, no difficulty, except the Government at Washington, where the accounts are kept, will not know anything about the condition of their balance. Supposing a million dollars of notes came in to a Federal reserve bank in San Francisco and they were obliged to redeem them—or accept them, if you please—accept them at par, and due to the time consumed in the passing of the notes across the continent the bank at San Francisco would be overdrawn. If they had a deposit of a half a million, it would be overdrawn half a million.

The CHAIRMAN. Then, you assume that the Government would not be advised of the matter?

Mr. HILL. I assume it would be.

The CHAIRMAN. They would not know it?

Mr. HILL. I should think that it was the business of the Federal reserve bank to notify the Government. I did not pay any attention to that; I do not call attention to it at all, and I think the other members of the committee in Chicago did not pay any attention to it, because they thought it was a matter for your committee to decide. But that is another weak link, it strikes me.

Senator NELSON. How do you construe this provision of the bill?

Notes presented for redemption at the Treasury of the United States shall be paid and returned to the Federal reserve bank from which they were originally issued.

Mr. HILL. That is all right. They would pay it if they had the money; and it would be their business to get the money.

Senator NELSON. The United States redeems them and sends them back to the bank from which they were issued. When they come back to the bank from which they were issued, what becomes of them?

Mr. HILL. They can retire them if they see fit or reissue them. The whole trouble comes from the fact that this is a joint and several note with equal responsibilities, on the part of each one, except on the final payment.

Senator HITCHCOCK. I want to presume a case. Under the bill as it is, we will assume a reserve bank located in San Francisco. Suppose business is active, and it has been rediscounting paper until it has its reserve down to 33⅓ per cent, and other paper is presented for discount, and the reserve bank applies to Washington for, say, $1,000,000 of notes. How would the reserve bank at San Francisco place $300,000 reserve against that $1,000,000 of notes when its reserve is already reduced to 33 per cent?

Mr. HILL. It can not take out a note, and it could not discount it under those circumstances.

Senator HITCHCOCK. That is what I would like to understand. I would like to have any banker answer the question.

Mr. HILL. Just a moment. Pardon me, I want to say this, that none of these problems have arisen because for the last 20 or 30 years—I remember that far back—we have not had to have a reserve against note issues.

Senator HITCHCOCK. What have you to say about that, Mr.— I was going to say the Senator from New Orleans, but he is not that yet. I will say the banker from New Orleans.

Mr. WEXLER. I did not quite catch your question, Senator.

Senator HITCHCOCK. I say, suppose that a San Francisco reserve bank has been rediscounting paper very actively until its reserve has been reduced to 33⅓ per cent, and there is still a strong demand by banks in that region for the discounting of paper, and the reserve bank applies to the Treasury for $1,000,000 of Government notes——

Mr. WEXLER. Government notes?

Senator HITCHCOCK. Under this bill they would be Government notes, United States notes, which it desires to loan out to its banker customers. How can it then place the reserve or segregate the reserve of $333.000 against those notes without destroying its reserve?

Mr. WEXLER. It can not do it.

Mr. FORGAN. It will have to get an authorized loan.

Mr. WEXLER. It has reached the limit of its loaning capacity, and it will either have to call on the Federal reserve board to force one of the other reserve banks to rediscount some of the paper or the banks would have to stop loaning and begin to call in the loans.

The CHAIRMAN. That is another check on these notes?

Mr. WEXLER. An absolute check.

The CHAIRMAN. And therefore the danger of redundancy is diminished by that provision?

Mr. HILL. Unquestionably. There is no way in the world that you can have an inflation of credit if you draw this bill in the manner that has been suggested. It will be beyond human power to expand the circulation beyond the limitation of the gold reserve required under the law. The only way you can increase it is if you have a tremendous era of prosperity, big crops which you will export, and have a large balance of trade and bring in more gold, circulation based on it will naturally flow from the banks. You can expand your credit, and in times like that you will need it.

The CHAIRMAN. Suppose that the San Francisco reserve bank finds itself utterly unable under the terms of this bill to give to its customers the relief which the bill is supposed to give. Up to this time it has taken out no notes at all; it has not taken advantage of that provision of the bill, and yet when it comes to the point where it needs to do so it has absolutely no ability to do so.

Mr. HILL. But, Senator, you are supposing a perfectly impossible situation. I can not conceive that all the borrowers in San Francisco who would have to have discounts on these notes would all reserve nothing but book credits and none of them would have ever taken out a note. Your proposition would imply that all of the banks in San Francisco had taken book credits and none of them had ever needed these notes for circulating purposes. That condition could not possibly exist unless they are all dead out there.

Senator HITCHCOCK. Let me show you how it can exist very well. When this bill goes into effect the reserve banks must begin at once to use notes. They will have the deposits in their banks. They will have $500,000,000 of deposits and they will have $100,000,000 of reserve. Under those circumstances they will loan the cash that is there.

Senator NELSON. But there is nothing, Senator Hitchcock, to require either that subscription of capital or deposit of reserve to be in gold. Where does the bank start with its gold? The point I make is, where does this reserve bank start with its gold reserve for the redemption? They can pay the subscription in any legal tender money, and their reserve may be in any legal tender money. How does the bank get its gold to start business with? The first business comes from commercial paper. That commercial paper may or may not bring gold. Where does the bank get its gold, and how?

Senator HITCHCOCK. Not only that, but when the point is made that to require 400 banks in central reserve cities to turn over $300,000,000 in cash to these reserve banks to begin business with, it is said that that would result in a contraction of credit in those reserve cities, and that in order to avoid that it is proposed to have these banks, instead of turning over cash to the reserve banks, to take it from commercial paper. So they will not only have very little in the way of gold, but they will have very little in the way of any cash.

Mr. FORGAN. May I say a word on this point?

The CHAIRMAN. Certainly, Mr. Forgan.

Mr. FORGAN. I do not know who is the author of this [exhibiting a paper], but whoever the author is, he knows this subject. This was passed to me by some one in this corner.

Mr. WEXLER. Mr. Roberts.

Mr. FORGAN. He has cleared up this subject in a way that I would like to bring before the committee.

Considering the case presented by Senator Hitchcock, the object that the bank would have in asking for these notes would be to liquidate its deposit liabilities, to exchange its deposit liabilities, for the convenience of the public, into notes; and that it could do without any change in its reserves as against its liabilities. So that what we have been saying was impossible is perfectly possible and perfectly practicable.

Mr. HILL. Yes, but this law requires a deposit of 5 per cent reserve in the Treasury before notes can be taken out, and the question suggested an exhausted reserve.

The CHAIRMAN. The committee will stand adjourned for eight minutes, until the members have an opportunity to vote, and the hearing will then be resumed.

(A recess was thereupon taken for eight minutes, after which the following proceedings were held:)

The CHAIRMAN. The committee will come to order.

Senator SHAFROTH. I would like to ask Mr. Hill a question or two if I may.

FURTHER STATEMENT OF JAMES B. FORGAN, CHICAGO, ILL.

Mr. FORGAN. Mr. Chairman, will you allow me to correct a statement I made this morning for the record?

The CHAIRMAN. Certainly.

Mr. FORGAN. When Mr. Reynolds was speaking he was asked by one of you gentlemen what the expense to a bank was on bank-deposit accounts, and as he did not readily answer and did not seem to have the figures right at his fingers' ends I volunteered that it was a fraction more than 3 per cent.

I want to correct my statement and say that when I said that I had in mind the cost to the First National Bank of Chicago of all deposits including the commercial deposits and the bank deposits, and my statement should have been, when it is confined to bank deposits, 4½ per cent.

Senator SHAFROTH. Mr. Forgan, while you have the floor I would like for you to make an explanation as to your theory of this bill creating a contraction of the currency. I understand that your theory is that a contraction will follow if this bill is passed in its present form. Therefore I would like to have you explain to the committee your reason for believing that.

Mr. FORGAN. Not a contraction of the currency, but a contraction of credit in the banks.

Senator SHAFROTH. Well, a contraction of credit in the banks, then.

The CHAIRMAN. You said you had a table in respect to that?

Mr. FORGAN. Yes, sir.

The CHAIRMAN. Will you have the table submitted to the stenographer to put it in the record?

Mr. FORGAN. I will give it that way.

Senator SHAFROTH. You may give it any way you wish.

Mr. FORGAN. I would prefer to make the statement and to give it with qualifications.

Senator SHAFROTH. You may proceed in any way you see fit.

Mr. FORGAN. It will not take a minute.

The loans and bond investments of the national banks, exclusive of their Government bonds pledged as security for their note circulation, amount, in round figures, to $7,336,000,000. The aggregate net deposits of the national banks on which their legal reserve is figured amount to $7,124,000,000. (See comptroller's report of June 4, 1913.) Thus the aggregate loans, including bond investments, of the national banks are practically an offset against the amount of their aggregate net deposits. In other words, these two items represent the amount of credits exchanged between the banks and the public, the amount owed by the banks to the public being practically offset by the amount owed by the public to the banks. This exchange of credits is based on and supported by actual money in the banks. The established relation between the amount of actual money held by the banks and the fabric of credits existing between the banks and the public is therefore in the ratio of $917,000,000 to $7,336,000,000, or 12½ per cent of money to the amount of credits.

If from the amount of money on hand, $917,000,000, the national banks are required to make the following payments to the Federal reserve banks, viz, 10 per cent of their aggregate capital, $105,000,000, and 3 per cent of their net deposits, $213,000,000, they would have to turn over more than one-third of their entire holdings, or $318,000,000, and would have left money on hand amounting to $599,000,000.

I might explain that in a very ready way by taking three articles this way [indicating]. Suppose these three articles represent a total amount of money in all the national banks, figuring on the net deposits and not on the gross deposits. The difference between the figures I give you and Mr. Reynolds's figures is that he figures on the gross deposits and I figure on the net deposits.

Senator NELSON. What is the difference between gross and net?

Mr. FORGAN. My reason for figuring on the net is that when we are figuring the reserve deposits to be paid into the Federal reserve banks on the main reserves we will be allowed to figure, I presume, the same way as we are allowed to figure our legal reserves now. We are allowed to deduct from gross deposits balance due from banks against balances due to banks; the clearing-house checks are deducted; all national-bank notes on hand are deducted from the gross deposits to produce the net deposits. Therefore our deposits are very largely reduced on which we keep our reserves, and I figure, there being nothing in the national-bank law to prohibit that method of figuring reserves and that system having been adopted by the comptroller's department, the same practice will be continued in this case.

Now, if these three items represent $900,000,000 and you take a third of that away we have two-thirds left. And you have the same liability as you had before. You have the same fabric of credit in the banks left when you have $600,000,000 of cash that you had

before when you had $900,000,000; so that the basis of the fabric of credit existing between the bank and the public has been changed from 12½ per cent, as I have shown, which is $8 of credit for $1 of money. It has been increased to whatever that proportion is. It would be something like $12 of credit to $1 of money, and in that way the banks will be very much more expanded.

Senator NELSON. You mean inflated.

Mr. FORGAN. Yes; inflated. I would like to say right here, because it came up before: In our conference in Chicago there was a question raised by Mr. Dawes, ex-Comptroller of the Currency and now president of the Central Trust Co. there——

The CHAIRMAN. You are speaking of Charles G. Dawes?

Mr. FORGAN. Yes, sir; Charles G. Dawes; he made the statement that this would produce a great inflation and I followed him by saying that it would cause contraction.

The CHAIRMAN. How much gross do you figure; $1,800,000,000, according to your estimates?

Mr. FORGAN. Yes, sir; $1,800,000,000. My idea—and I want this to be put clearly before you, and as I show, the contraction was to bring the present fabric of credit existing on the banks down to the present ratio of $8 credit to $1 of money and would require the calling of loans and the contraction of credits to the public to that extent. He figured that this contraction would not be enforced and therefore there would be a great expansion, and he came to me after he had taken my figures home and said:

> You and I are exactly on the same basis. You say that if the thing was put into effect—which could not be done—it would cause contraction. It would make contraction necessary, but the contraction would not take place. Therefore the banks would be placed in an expanded condition.

Therefore he and I were really on the same track.

As I was saying, taking that one-third of the money, or about one-third, would leave money on hand amounting to $599,000,000 in the banks.

On the established basis of 12½ per cent of money to existing credits, which seems little enough, this would provide for credits between the banks and the public aggregating $4,792,000,000, calling for a compulsory contraction in such credits of $2,544,000,000 from their present amount of $7,336,000,000. The Federal reserve banks, with a capital paid in of $105,000,000, and reserve deposits similarly paid in of $213,000,000, would have in money to start with, $318,000,000, which, on the basis of the 33⅓ per cent cash reserve they are required to carry against their total demand liabilities would enable them to expend until they had assumed total liabilities of $954,000,000.

Senator CRAWFORD. You can not extend credit to anyone except to the banks?

Mr. FORGAN. No, sir; as I was saying, that would be $954,000,000, of which they would have already assumed liability for the reserve deposits, $213,000,000. Their net expansion capacity would therefore be $741,000,000, and this would be the limit of their ability to rediscount for their member banks, whose compulsory contraction of credits as shown above if they are to be kept in their present basis would be $2,544,000,000, showing that their ability to rediscount

would fall short of the contraction of credits in their member banks by $1,803,000,000. After 14 months, when the minimum reserve deposits required are to be raised from 3 to 5 per cent, the contraction would be proportionately greater.

Senator HITCHCOCK. That would be without their issuing any notes. They could do that from the cash which they received from deposits?

Mr. FORGAN. It would make no difference what form the credit took; it would not make any difference whether it was deposit liabilities or note liabilities. They might be all notes or all deposits. There would not be a particle of difference, as they keep a reserve on both.

Senator HITCHCOCK. You figure, then, that there would actually be a contraction of $100,000,000 of actual bank credits of the country?

Mr. FORGAN. I have not finished my argument, Senator. Right there, however, I want to impress upon your minds that I did not want to give these figures to scare anybody, because it does not mean the thing can not be worked out. It does not mean that at all. It means that this $1,800,000,000 is the amount of contraction that would take place in order to continue the national banks on their present basis of $8 of credit to $1 of money, which I do not think necessary, but it produces a condition that has to be faced.

Now I will go on to explain. Such a contraction of the credits, if enforced, between the national banks and the public could not be accomplished without a cataclysm in business.

In order that these figures should not overstate the effect on the credits between the public and the national banks by such a diversion of money equal to one-third of all the money in the national banks, from these banks into the Federal reserve banks, the 3 per cent reserve deposit required on their "total demand liabilities" has been figured on their net and not on their gross deposits, under the assumption that the same offsets would be allowed them that are now allowed when figuring their legal reserve requirements.

These figures do not include the Government deposits which within 12 months are to be transferred to the Federal reserve banks. With the exception of the free money in the Treasury such deposits would be transferred from the national banks and would require them to part with a further amount of money, equal to the amount of the Government deposits they hold, which would still further proportionately decrease their money reserve and increase the contraction of their loans necessary to maintain their present credit expansion basis. These transfers of Government deposits having to be made within 12 months, would have no effect on the above transactions, all of which must occur within 60 days.

Senator NELSON. Those Government deposits would be a checking account, would they not?

Mr. FORGAN. Yes. I do not wish to be misunderstood here, and I want you to understand my position. They say figures will not lie.

The CHAIRMAN. Figures lie and then they prove it, as they say.

Mr. FORGAN. If you rely on them you had better rely upon something that is fundamentally true.

I do not wish it to be understood that these figures forecast precisely what would occur were the Federal reserve act passed and were the national banks to operate under it. I am well aware that no

calculation can possibly be made to correctly forecast what would actually occur in such an event. I am satisfied, however, that the figures portray as accurately as possible the situation which would be confronted were the 12 Federal reserve banks organized and should the national banks undertake to operate under the new law and maintain their present credit expansion basis of $5 credit to $1 money.

The discrepancy between the loaning capacity of the Federal reserve banks and the contraction of credits in the national banks shown in the figures may be further elucidated as follows: It is proposed to transfer bodily from the national banks practically one-third of the actual money now lodged in their vaults and place it in the vaults of the Federal reserve banks. As we have seen, the money in the vaults of the national banks forms the basis of a fabric of credits existing between them and the public in the ratio of 12½ per cent of actual money to the amount of such credits outstanding. This fabric of credits must be adjusted to the reduced holdings of actual money by the banks if the established ratio of 12½ per cent of money to total credits is to be maintained, otherwise to a proportionate extent there will be an overexpansion of credits in the banks. The credit expansion of the Federal reserve banks is fixed on the basis of a 33⅓ per cent money reserve against their total liabilities. They are therefore restricted in their credit expansion to $3 of credit against $1 of money, while the national banks have been doing business on a 12½ per cent money basis, or $8 of credit against $1 of money. As a basis of credit, therefore, the one-third of the money now in the national banks when transferred to the Federal reserve banks would lose nearly two-thirds of its present expansive power.

Senator SHAFROTH. Mr. Forgan, would it not be true that that partnership relation, if it might be so termed, between the Government and the banks would produce a confidence in the public that would have a tendency to increase their deposits with the banks generally?

Mr. FORGAN. That is on the assumption that they have any more to deposit. I think they have deposited most of it now.

Senator SHAFROTH. Well, a part of the money is held in savings deposit vaults?

Mr. FORGAN. But I think it is comparatively a small part.

Senator SHAFROTH. Is it not a fact also that many of the banks, especially country banks, keep a very large reserve that they would not have to keep if they were permitted to discount their paper at one of the banks, and would not they have a tendency to overcome some of these objections?

Mr. FORGAN. Yes, sir; I want that distinction understood. I do not consider the maintenance of the $8 to $1 basis necessary in the banks when they have these Federal reserve banks to go to to get rediscounts. I do not think it is necessary. I only put it before you as a condition produced by the operation of the plan which is proposed. I do not think there is any doubt about the condition, and it is for you to consider what the effect of it will be.

Senator CRAWFORD. Well, would it be safe banking to have $12 credit against $1 money?

Mr. FORGAN. Well, it would not, under the present circumstances, certainly, because it would affect our reserves.

Senator CRAWFORD. Well, under what circumstances would it be safe?

Mr. FORGAN. If we had a Federal reserve bank, established where we could always depend upon getting a satisfactory circulating medium to liquidate our deposits with when they were drawn upon, I think it would be safe at least to materially increase it.

It would not have to go to the full $12 limit, because we would have some rediscounts; but even if they rediscounted to that extent, it would be an additional expansion of the credit on the part of the banks.

Senator CRAWFORD. Well, you would not want this Federal reserve bank to do a general business with the public, and do it on a basis of $1 cash to $8 credit?

Mr. FORGAN. No, sir; I would not; and that is one reason why, if it was a Federal reserve bank, and was running under competition with the banks and keeping a reserve of that kind, it could not do it.

Senator NELSON. Now, Mr. Forgan, I want to ask you a few questions bearing on this question of credits. Now, you have in your banks what I would call two different classes of deposits; what I would call book, or credit, deposits, and check deposits, have you not?

Mr. FORGAN. Yes.

Senator NELSON. I mean by that, that if I come in and give you my note for $1,000 and you credit your books with that——

Mr. FORGAN. Yes.

Senator NELSON. On one side you have $1,000 of deposits?

Mr. FORGAN. Yes.

Senator NELSON. And on the other side you have my note as an offset against it? Now, the bulk of your deposits in the large cities are of that character, are they not?

Mr. FORGAN. I should say yes, largely—or just the same thing when checks are deposited.

Senator NELSON. I want to call your attention to the fact—I ask you this question both in connection with this subject and in connection with the interrogatories of Senator Hitchcock here to-day, speaking about the disproportion, or how the capital of the banks has grown less, as compared with the amount of deposits—and that is, that the capital and surplus of your banks would be an offset to those deposits that I call "cash deposits," would it not?

Mr. FORGAN. Yes.

Senator NELSON. Well, the notes given for your credit deposits would be an offset for that, would they not?

Mr. FORGAN. Well, you could consider them so.

Senator NELSON. So that, as to your credit deposits, which are the bulk of your deposits, to have, in addition to your capital and surplus, you have in addition to that the notes of the depositors, the paper depositors?

Mr. FORGAN. Yes, sir; but the depositor's note does not lie in the bank concurrently with his deposit which he gives. He gives his note payable in three months; but he may check the money out the next day.

Senator NELSON. But that is how you get such enormous deposits on your books in the large cities—that they are in the shape of credit deposits, are they not, as distinugished from cash deposits?

Mr. FORGAN. Yes. But I do not distinguish, when you come to credit deposits; I do not see any distinction between the notes——

Senator NELSON (interposing). Well, is that not the reason?

Mr. FORGAN. Will you please wait a minute and let me explain. I do not think you understand what I was going to say. I do not see any distinction between the notes discounted which our customers deposit and other people's checks on other banks, which they also deposit. They are all credit deposits.

Senator NELSON. No; but I want to call your attention to one practical distinction that I have observed, and I think you know it. You take a small country bank, one of the $25,000 national banks in a rural community. Seventy-five per cent of their deposits consist of cash actually paid in over the counter. It is only a small bagatelle that comes in in the form of such credit deposits as you have in the large cities.

Mr. FORGAN. Yes.

Senator NELSON. So that there you have a difference between country banks and large city banks in that respect. In the country bank it is cash that is deposited. With you it is simply a book deposit.

Mr. FORGAN. Well, if you take the other side, Senator, they pay out cash over the counter for most of the transactions, and we pay simply a balance to the clearing house, the difference between what we have against the other banks, every day, and what they have against us. So that we do not have to pay out nearly as much money proportionately as they do.

Senator NELSON. I know you do not have to pay out the cash, as the country banks do.

Mr. FORGAN. I mean that proportionally we do not pay out as much cash or take in as much cash as the country banks.

Senator NELSON. You have the commercial paper, and they have the money, largely, and against that both you and they have the surplus and capital?

Mr. FORGAN. Yes; in the statement I made just now, the first statement I made, you take all the banks together and the obligations of the public to the banks in the shape of loans is practically offset by what is called their net deposits.

Senator NELSON. Yes.

Mr. FORGAN. And that carries out your theory that the rest of it is represented by the capital.

Senator NELSON. And surplus of the banks?

Mr. FORGAN. Yes.

Senator WEEKS. Mr. Chairman, I want to ask Mr. Hill a question. I do not know whether he is going to remain in the city or not. You have been giving a good deal of attention and study, Mr. Hill, to the question of issuing bank notes or Treasury notes?

Mr. HILL. I have in years gone by; I have not recently. This whole thing is a new proposition to me, during the last two weeks.

Senator WEEKS. You have been looking up authorities, and all that sort of thing?

Mr. HILL. Yes.

Senator WEEKS. Now, have you found any testimony or any authority which advocates issuing Treasury notes in preference to issuing bank notes?

Mr. HILL. No; I have not.

Senator WEEKS. Have you ever heard of any?

Mr. HILL. And I will state furthermore, that I have seen, within a month, the statement that even Spain has taken the same course that Germany took years ago, that England has always pursued, in throwing the responsibility for the maintenance of the gold basis of the country, upon the banks. I do not know how correct that is; but I have seen it in the newspapers—I will not go into the way in which they did it, because that would raise another question. I do not know of any country that has adopted the policy of government paper currency in recent years; and I know the leading countries of the world are getting away from it as fast as they can, and throwing the burden of maintaining the gold supply upon the banks, where, in my judgment, it ought to go, and where only it can safely go.

Senator NELSON. We have an evidence in our experience with the national-bank notes. They have not been the promises of the Government; they have been the promises of the bank. And yet the people have accepted them with as much confidence as any other part of our currency.

Mr. HILL. Because they are secured, dollar for dollar, by Government obligations.

Senator NELSON. And with that past experience with our notes, we could not have any more difficulty with these new notes, if they were issued by the reserve banks instead of by the Federal Government?

Mr. HILL. I think the notes are good under either plan, whether issued under the plan as it is drawn—I mean with the bill as originally drawn, with gold redemption, and not as it stands now, with "lawful money" redemption. But the note would be good under either plan. The bankers' proposition, while it fixes the reserves normally at 40 per cent, leaves that 40 per cent untaxed. If the reserve falls below the 40 per cent, under the proposition which they suggest, for every 2½ per cent which the reserve falls, the bank is taxed on that decrease of reserve, until it gets down to 33⅓ per cent, the normal ratio of the pending bill.

So that, in either case, I think the notes are abundantly protected.

Senator NELSON. You would have that reserve in gold?

Mr. HILL. Yes, sir. Gold is the world's money. If we were by ourselves, and had no international trade (and everything points to an enormous increase in our international trade in the future), we might consider some other proposition. But the demand for gold is bound to be greater in the future against this country than it is now in my judgment; and therefore I think we ought to fortify ourselves when we can do it without cost to us.

Senator NELSON. You believe it is wiser to throw the burden of maintaining the gold reserve on the banks than to have it rest upon the Government?

Mr. HILL. Why should that not be done? Why should that burden be upon the Government, requiring the Government to tax it back on the people of the country? These reserve banks are going to make a profit, or else they would not be incorporated. Why should it not come out of them? The 25,000 existing banks do not make a cent out of it, they do not issue any notes under this bill. Why should not these reserve banks, whether they consist of but 1 or 12, take upon

themselves the burden of furnishing the gold supply, as they do in every competing country in the world?

Senator McLEAN. Mr. Chairman, I would like to ask Mr. Hill a question.

The CHAIRMAN. The Senator from Connecticut will proceed.

Senator McLEAN. We have got $1,000,000,000 in gold which is represented by certificates.

Mr. HILL. I do not think we have, Senator. I will tell you that there are——

Senator SHAFROTH (interposing). $1,100,000,000.

Mr. HILL. I do not think we have.

Senator SHAFROTH. That is the last report of the Treasury.

Senator McLEAN. But according to the report, there is some $500,000,000 held in the banks?

Mr. HILL. Exactly.

Senator McLEAN. Nobody knows where the other $500,000,000 are. Is it not possible that those gold certificates are, many of them, in Europe?

Mr. HILL. I have seen them myself there, over and over again.

Senator McLEAN. Did you ever find any greenbacks there?

Mr. HILL. Rarely, if ever. I have seen in almost every civilized country in the north temperate zone American gold certificates, our people knowing they can travel with them and foreigners knowing them to be gold receipts which can be held or transported without loss by abrasion.

I asked Mr. Roberts a few moments ago if the Treasury Department had any way by which they could trace United States gold certificates in the vaults of the banks of Europe. There is $440,000,000 of them missing somewhere. It may be in the pockets of this committee—I wish they were [laughter], but who knows where that money is? Nobody knows where it is.

Senator McLEAN. As a matter of fact you do see the gold certificates abroad? You do find them abroad?

Mr. HILL. I have seen many of them abroad, and I have carried them abroad myself. You will find them in the hotels on every tourist line of Europe and around the world.

Senator SHAFROTH. Mr. Hill, you have explained the defects, very largely, of this bill. Now, I would like to have you state what kind of currency you think we ought to have?

Mr. HILL. I will tell you what I think as to these banks that are to be created. In the first place, I would create one central national bank with complete supervision by the Government but without control by the Government, because that control means control of individual credit, and you can control it from the Federal reserve board straight down to the farmer who takes his note for discount to the smallest country bank in the United States.

Senator SHAFROTH. Now, then, you would have a great central bank——

Mr. HILL. I would have a central reserve bank, or a reserve association, or whatever you choose to call it.

My general idea of this whole proposition is this: There is this great good that is going to come out of this legislation, and I congratulate this committee upon being the parties who will bring it about, that the one thing to be secured is the massing of the reserves.

But, gentlemen, it has got to be on a basis that makes it an inducement to the country banks of this country to participate in it as a patriotic movement. There is nothing in either bill to-day—either as presented by your committee or by the bankers' committee (and this bill is the more liberal). There is nothing in either bill to-day that would induce a country bank to go into this proposition, compared with the advantages which they would get of home supervision under their State law, except a patriotic desire for the good of the whole country and a sacrifice on their part to accomplish it. Now, that is my judgment.

Now, how are you going to do it? It is a matter of detail for you to work out. We must have the massing of the reserves for mutual support by all of the weak in times of stress. You do not need this massing at any other time. You do not need it except when the emergency is on you, but you have got to have it organized and ready and doing a fairly profitable business when you do not need it in order to have it when you do, and your problem is how to establish it at the least possible cost of maintenance and have it ready when you want it.

And in my judgment—I do not quite say——

The CHAIRMAN. Pardon me, I do not think you have answered the question proper.

Mr. HILL. What is that, Mr. Chairman?

The CHAIRMAN. It does not specifically answer the question of Senator Shafroth.

Mr. HILL. In my judgment, it is a mistake to attempt to go beyond that point. Let it grow by an evolution beyond that point.

Senator SHAFROTH. Would you have the central bank issue all of the currency?

Mr. HILL. Absolutely.

Senator SHAFROTH. What limitation would you put upon the central bank?

Mr. HILL. None but the requirements of the business of the country. With prompt redemption, after it has done its first work.

Senator SHAFROTH. Would you leave that to the board of directors?

Mr. HILL. With the limitations of a gold reserve and the security of commercial paper.

Senator SHAFROTH. What percentage of gold reserve would you have?

Mr. HILL. I thought I would make it 50 per cent. These gentlemen recommend 40 per cent. I concede their judgment is better than mine, for this reason: I stated 50 per cent in my study of this bill, and had the remainder of the note secured by collateral paper, accepted paper. They make it 40 per cent and the whole note secured by collateral. Consequently I think their proposition is better.

Senator SHAFROTH. Would the board of directors have the power to retire the currency at any time they wanted to do so?

Mr. HILL. It would retire itself.

Senator SHAFROTH. Well, but would they, in fact, have that power under your plan?

Mr. HILL. What difference would it make whether they retired it themselves——

Mr. WEXLER (interposing). They could not retire it themselves.

Senator SHAFROTH. Your theory is that the central bank would have the power to issue notes and borrow money?

Mr. HILL. It would not make any difference whether it had the power to issue notes or not. The power to issue notes is a mere bugaboo. There is no difference between the expansive power of a properly secured note circulation and that expansion put upon the books of the bank as a credit except in the form which the credit takes.

Senator NELSON (interposing). Mr. Chairman, I would be glad to hear Mr. Forgan, Mr. Wexler, and Mr. Reynolds on this question of the character of the bills, whether they ought to be the bills of the bank or the bills provided in this proposed legislation, the promises of the Federal Government. I would like to hear each of these gentlemen discuss that question.

Senator POMERENE. Well, it is half past 5 o'clock now, and that would take a long time.

The CHAIRMAN. It has been suggested to the chairman that we adjourn now until to-morrow morning at 10 o'clock.

But before adjourning for the day I should like to ask one question of Mr. Hill.

Mr. HILL. Would you like to have me stay over until to-morrow, Mr. Chairman?

The CHAIRMAN. No; I do not want to keep you, so far as I am concerned. I just want to ask you this question: You stated, I believe, that you object to the Government control of this bank?

Mr. HILL. Yes, sir.

The CHAIRMAN. Because, in reality, it means Government control of individual credit?

Mr. HILL. Yes, sir.

The CHAIRMAN. Right "down to the crossroads"?

Mr. HILL. I think it does.

The CHAIRMAN. Would you prefer to have that control, then, exercised by private persons?

Mr. HILL. I would prefer to have that distributed, and you can not stop it.

The CHAIRMAN. Why?

Mr. HILL. No; it is not possible. There are 17,000 banks that are not under the control of the Government. There are private bankers, some of the largest institutions in the country. I do not believe it is possible, by legislation, to get such a control. You may control it, so far as the national banks come into the system.

The CHAIRMAN. I merely wanted to get your point of view, Mr. Hill.

(Thereupon, at 5.30 o'clock p. m., the committee adjourned until to-morrow (Saturday) morning, at 10 o'clock.)

SATURDAY, SEPTEMBER 6, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.15 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, Reed, Shafroth, Hollis, Nelson, and Bristow.

The CHAIRMAN. Mr. Forgan, I understand that you wish Mr. Reynolds to take the stand and answer questions by members of the committee?

Mr. FORGAN. Mr. Reynolds and Mr. Wexler are both here Mr. Chairman.

The CHAIRMAN. All right. Mr. Reynolds, will you proceed now.

Senator SHAFROTH. Mr. Chairman, Mr. Milliken has some questions here in tabulated form which he would like to ask Mr. Reynolds; and it concerns a theory which he holds and which he understands very thoroughly; and I should be glad if you will allow Mr. Milliken to ask them directly. Is there any objection to that?

The CHAIRMAN. I have no objections, if it is agreeable to the committee.

Senator HITCHCOCK. If he desires simply to ask one or two questions, I have no objection.

ADDITIONAL STATEMENT OF GEORGE M. REYNOLDS, OF CHICAGO, ILL.

Mr. MILLIKEN. I would like to ask Mr. Reynolds about the European test of solvency, as compared to the American test of solvency.

Mr. REYNOLDS. Can you not put all of that in one question?

Mr. MILLIKEN. I have got it on one sheet of paper here, Mr. Reynolds.

Suppose we should adopt the European test of bank solvency by requiring the national banks to state the liquidity of their portfolio (the portfolio being the portion of their assets which represents their deposits and other demand obligations) and its ratio to their deposits and other demand obligations, would that not tend to better banking in this country? That is the question.

Mr. REYNOLDS. Yes; I am inclined to think it would. I think anything that would be in the nature of greater publicity of actual sound or unsound conditions would be helpful.

Mr. MILLIKEN. The second question is: To illustrate, let me suppose there are two banks reporting under this test, one of which we will call bank A and the other bank B, and their portfolios should be as follows:

The portfolios of both banks and the ratios thereof to their deposits and other demand obligations would be as follows: Now, the first I will give you is the amount of gold and other cash items, and then the the next is the commercial paper maturing.

Bank A has in gold 10 per cent of its deposits, and it has 45 per cent of commercial paper maturing within 15 days, 25 per cent of commercial paper maturing within 16 to 30 days, 15 per cent of commercial paper maturing within 31 to 60 days, and 5 per cent of commercial paper maturing in 61 to 90 days, and no commercial paper maturing after 90 days.

Bank B has 20 per cent of its deposits in gold, 15 per cent in commercial paper maturing within 15 days, 15 per cent in paper maturing in 16 to 30 days, 15 per cent of commercial paper maturing within 31 to 60 days, and 35 per cent of commercial paper maturing in 61 to 90 days, and no commercial paper maturing after 90 days.

Now, is it not a fact that bank A is in a better position to meet its obligations than bank B, even though the latter, at the particular time this statement is made, has 100 per cent more gold in its vaults than bank A?

Mr. REYNOLDS. I would say yes.

Mr. MILLIKEN. Therefore, our test of solvency, which requires the bank to state the extra liquidity—our test now requiring the bank to state the extra liquidity of the smallest portion of its assets is a fallacy, is it not, without stating the liquidity of the balance of its assets? It is a monetary fallacy, which is not required in any country of the world but ours; is not that true?

Mr. REYNOLDS. Yes; that is, practically, I will not say it is not required in any country, but it is not required in most countries. That is upon the theory that the question of reserves should be left to the judgment and skill of the managers.

Mr. MILLIKEN. The managers of the bank?

Mr. REYNOLDS. Yes.

Mr. MILLIKEN. Now, what other country is there which requires a legal gold test but ours?

Mr. REYNOLDS. I do not know of any, offhand.

Mr. MILLIKEN. There is not a country in the world; ours is the only one. Not a single European country. The European expert, Prof. Lazotti, of Italy, the great minister of finance of that country, the man who gave them the rural credit system, says that is the most dangerous feature in our whole banking system.

Mr. REYNOLDS. If I understand you correctly, your whole theory, or question, is as to whether a very large percentage of your liabilities covered by short-time maturing commercial paper, with a small cash or gold reserve, is not better than a somewhat larger gold reserve with a very much smaller percentage of short-time commercial paper?

Mr. MILLIKEN. Yes.

Mr. REYNOLDS. I certainly agree with you.

Senator NELSON. But you will admit that, in one respect, their bills of exchange or commercial paper is different from ours. Ours is strictly in the form of notes?

Mr. MILLIKEN. Yes.

Senator NELSON. And theirs is mostly in bills or drafts.

Mr. MILLIKEN. Yes, sir.

Senator NELSON. With the indorsers and acceptors on it?

Mr. REYNOLDS. Senator Nelson, the value of their short-time commercial paper over ours under the present system could be illustrated in this way: That those banks, which are joint-stock banks, discount this paper and turn it into cash at any time; and they are more liquid by reason of that fact than under our present system; but no more liquid than we would be under the same conditions, if these Federal reserve banks were established as now contemplated. Is that not right?

Mr. MILLIKEN. I believe we could have a better discount bank.

Mr. REYNOLDS. Well, I am only trying to illustrate the point.

Mr. MILLIKEN. Yes. But at present the banks have got no place at which to rediscount their commercial paper?

Mr. REYNOLDS. The figures of foreign discount institutions show that the major portion of the discounts taken by them are very short time. You take in France, they will have an average from 14 days to 20 days. In London, they will average from 7 to 15 days, illustrating by that that the average joint-stock bank calculates that a large quantity of liquid commercial paper of such a kind as is eligible for discount at the central bank is the thing they count upon most for their reserves.

Mr. MILLIKEN. Certainly.

Mr. REYNOLDS. Credits there run for a very short time; a great deal of money runs over week ends, or from 5 to 7 days. So that if a joint-stock bank in London wanted to realize £1,000,000 they take out of their portfolio paper sufficient to get that amount of money.

Mr. MILLIKEN. The shortest time paper?

Mr. REYNOLDS. The shortest time paper they have. It may run 2 days or 5 days, or 7 days, with the result that the average discount over there runs from 7 to 14 days.

Mr. MILLIKEN. Yes.

Mr. REYNOLDS. That is the real test of it.

Senator NELSON. Then, they have in these countries what they call "accepting houses"?

Mr. REYNOLDS. Yes, sir.

Senator NELSON. That makes a business of accepting bills of exchange?

Mr. REYNOLDS. Yes, sir.

The CHAIRMAN. Mr. Reynolds, we have examined the pending measure at considerable length, in showing what the objections to it are. What features of the pending measure do you regard as of value?

Mr. REYNOLDS. Well, there are many advantages. I think the most important feature of all—and it is an extremely important one—is that it will provide with proper elasticity in credit and currency. I think that it will have a tendency to mobilize reserves, to the extent that it will give greater efficiency to the use of all lawful money as reserves in the safeguarding and protection of our credit.

The CHAIRMAN. Might these banks not also serve as a convenient method of transferring credits from one part of the country to another if they kept accounts with one another?

Mr. REYNOLDS. Yes; if they kept accounts with one another. The difficulty with that is, that at certain seasons of the year, the tendency is all in one direction, and in certain other seasons of the year it is all in the other direction.

Now, that may be overcome partly with a common ownership of the assets in one point, which would make these transfers of funds purely bookkeeping entries; so far as the institutions would be concerned there would be no transfer of the money. But they could make these transfers, as you intimated, through keeping accounts with one another.

On the other hand, the more money there is tied up in banks carrying balances of one of the Federal reserve banks with another, in order to meet the exchange requirements of the country, the less

ability they would have for doing business, and the greater the contraction of general business would be.

The CHAIRMAN. Well, might these reserves of the reserve banks not be kept with each other in cash, and in that way the matter of exchanges be facilitated?

Mr. REYNOLDS. Well, I calculate that this bill, if it were put into effect, would require that the balances due from one Federal reserve bank to another should require 33⅓ per cent reserve in the bank to which it was due; so that the more balances you carry, the more reserves there would be necessary.

Now, you are getting back to the question of pyramiding. We can now run, in the reserve cities, on the basis of 35 per cent reserve. Now, if you undertook to bring about pyramiding by requiring them to keep balances with one another in order to accomplish the same thing the national banks are now doing, you would reduce the efficiency of the reserve by raising it 25 to 33⅓ per cent, because it requires a larger amount of money against those balances.

The CHAIRMAN. Upon that assumption, that is true.

Mr. REYNOLDS. Yes, sir.

Senator SHAFROTH. Have you finished your question, Mr. Chairman?

The CHAIRMAN. Yes, Senator Shafroth.

Senator SHAFROTH. Mr. Reynolds, the currency which is provided in this bill consists of Treasury notes, and they are not made legal tender. In your judgment, would it strengthen the currency to make those notes legal tender?

Mr. REYNOLDS. No, sir; I do not think they should be made legal tender.

Senator SHAFROTH. Why? What objection is there to making them legal tender?

Mr. REYNOLDS. Simply because, in my opinion, a bank note should be created to serve only the purposes which a check would serve. They are not money; and I think the fundamental point in the consideration of that subject is to keep in mind constantly that they are not money. They are obligations; they are credit instruments; they are a means of exchanging a credit into a general form which is known by everybody and accepted by everybody to such an extent that they will pass current everywhere, whereas oftentimes an individual check or draft would not pass current.

Senator SHAFROTH. But these notes are notes of the United States, are they not?

Mr. REYNOLDS. Yes. They are the joint obligations of Federal reserve banks and the Government.

Senator SHAFROTH. But what is the objection if they are notes issued by the United States Government; is there any objection to making them legal tender?

Mr. REYNOLDS. I think there is a decided objection. What value would the Government get if it issued these notes under these conditions? Does not the question of the creation of credit follow the same principles of economics applied to you as an individual, to a municipality, a commonwealth, or a nation? Should not credit always, under all conditions, be created against the receipt of actual assets? In other words, if I give an obligation I must get an asset for it.

Now, I understand that it is not the purpose of this bill to provide that the Government gets an asset; but it creates a liability. Would you gentlemen sign a note which might come back upon you for payment without getting some asset as against the liability which you create with which you could liquidate the obligation? It seems to me that it is the same principle.

The CHAIRMAN. Do you think, then, that the principle in use by the Bank of England is unsound?

Mr. REYNOLDS. I did not understand that, Mr. Chairman.

The CHAIRMAN. Do you think the principle in use by the Bank of England is unsound; it makes its notes legal tender?

Senator SHAFROTH. And so does the Bank of France.

Mr. REYNOLDS. No; I do not say that, because the Bank of England, in a great part, has its notes secured by gold—they are warehouse receipts.

The CHAIRMAN. But the Government's promise to pay is also the basis of their notes, is it not?

Senator SHAFROTH. To the extent of $90,000,000.

Mr. REYNOLDS. Well, that is to the extent of the amount of bonds which they have back of those notes.

The CHAIRMAN. I am speaking of whether you regard it as an erroneous system, the principle of the Bank of England—supplementing the question which the Senator from Colorado asked you?

Mr. REYNOLDS. Well, I do not know that I could give a satisfactory answer to that question offhand.

Senator NELSON. In the case of Bank of England notes, you know that for every bill outside of these ninety millions of debt the Government is backed by $1 in gold?

Senator SHAFROTH. Yes.

Senator NELSON. They simply serve the purposes of our gold certificates here. The bank of England has $1 in gold for every one of those notes?

Mr. REYNOLDS. No.

Senator SHAFROTH. There is a reserve of about 60 per cent in the Bank of England.

Mr. REYNOLDS. The larger you make your reserve the more you minimize the danger against the issuing of those notes.

Mr. MILLIKEN. Mr. Chairman, will you permit me to make a statement?

The CHAIRMAN. If the committee has no objection.

Senator HITCHCOCK. Would it not be better to wait until Mr. Milliken comes on the stand? I think that ought to be a separate matter.

The CHAIRMAN. Then, you may make your statement later, Mr. Milliken.

Senator SHAFROTH. Do you regard the legal-tender character of the United States greenback notes as being a detriment or a benefit?

Mr. REYNOLDS. Well, it is a benefit in that it can be kept in circulation better; but it is a detriment in every other respect, because it requires the Government to do just exactly what the Bank of England does—carry an immensely large gold reserve against it—which must be extremely expensive.

Senator SHAFROTH. Well, if they were made a legal tender, they would have to carry a still larger reserve, would they not?

Mr. REYNOLDS. I think they would, then.

Senator SHAFROTH. Well, then, the legal-tender character which is attached to the greenback note is really a benefit in the matter of strengthening the currency?

Mr. REYNOLDS. Well, it keeps them in circulation better. It enables the banks to carry them in their reserves, and I think if you will take the statement of the Comptroller of the Currency you will find that those legal-tender notes are, to a very large extent nowadays, locked up in the vaults of the national banks and kept there permanently as their reserves.

The CHAIRMAN. Well, for that very reason——

Mr. REYNOLDS (interposing). Yes, I think it is for the reason that they are legal tender. But if you make the notes which it is proposed to have these institutions issue—if you make them legal tender, then you provide for what I am afraid will be a violent inflation in credit.

Senator SHAFROTH. Then you think it would be a detriment to make these notes legal tender, even if they are Treasury notes of the United States Government.

Mr. REYNOLDS. I do. I think it would provide for a greater inflation than necessary, and in explanation of that statement I will say that I think that, for the reason that it is only in rare intervals, now and then, under existing conditions that we need more credit, or more money.

I do not believe you want that any more than the bankers do.

Senator SHAFROTH. Do you think that to make the present national-bank note full legal tender for the payment of debts would be a detriment or a benefit?

Mr. REYNOLDS. No; I do not. I differ from a great many of my colleagues as bankers on that subject, in this respect, that I have believed for some time that a national bank note issued by an institution other than my own should, in view of the fact, first, that it is obliged to pay par or more for the security which secures the note, be counted as reserves. In other words, I think the note of Mr. Forgan's bank, secured as abundantly as it is secured, with the additional liability of his bank, and also the promise of the Government to pay it, should be counted as reserve in hand.

And, by way of illustrating how that works under existing conditions, I have in my pocket a statement from our institution, received three or four days ago, and I find that we have due from the United States Treasury $1,437,000 against a requirement of 5 per cent of $450,000, leaving $987,000 as representing the amount of national bank notes which we have in process of transportation to Washington and return, in order to present those notes for redemption and get them into lawful money.

Senator SHAFROTH. And use that lawful money for reserves?

Mr. REYNOLDS. Yes. Now, every night we assort our money received during the day and every bank note of banks other than our own bank, which we are unable to pay out during the day, is forwarded to Washington for redemption. And on this statement which I have, if we had not been obliged to do that, but could have counted those notes as legal money, we would have had $987,000 greater reserves, which would have been the basis of security for credit, on the basis we are now running, of 8 to 1 as Mr. Forgan showed, which would allow for a good deal of expansion.

Senator SHAFROTH. Well, you think that if the present bank notes were made legal tender, that it would create an expansion of credit?

Mr. REYNOLDS. Yes; I think it would, to some extent.

Senator SHAFROTH. In the same way as if this Treasury note was made so?

Mr. REYNOLDS. Yes, sir; I do.

Senator SHAFROTH. That would be due to the fact that it could be counted as reserves, and would, therefore, be a safer currency to build on?

Mr. REYNOLDS. Yes, sir. I think the better policy is not to make either of them legal tender, but to go ahead and legislate along lines that will provide for proper elasticity in these unusual times that I have referred to, through a private bank of discount, where an elasticity in credit and an elasticity in note issue, which must be coincident with each other, can be accomplished.

Senator SHAFROTH. Mr. Reynolds, do you consider that action of the European banks—the Bank of Germany, the Bank of France, and of England—in making their notes legal tender has been a detriment or a benefit?

Mr. REYNOLDS. Well, you have a very different system of business in those countries. I do not know that I am sufficiently posted to justify me in answering that and standing upon my answer.

But here is the difference as it appears to me at the moment: In this country banks are obliged to carry now about $1,500,000,000 in reserve, and it is specified in the law that those reserves—particularly outside of this $542,000,000 bank balances—must be in lawful money, or legal tender. Now, there is no such law as that in Europe. There is no law anywhere requiring joint-stock banks in England and in other countries to carry reserves, and I think when you take that into consideration you make the cases so dissimilar that they are not parallel at all.

Senator NELSON. Then there is another consideration, Mr. Reynolds, that in the European country they have only one bank of issue.

Mr. REYNOLDS. Yes.

Senator NELSON. And at present we have in the national system of this country over 7,000?

Mr. REYNOLDS. Yes; but the answer to the question as I meant to make it is to make the reserves carried entirely apart from the reserves for circulating notes or reserves against deposits.

We have to carry that $1.000,000,000 here under the law; and it ties up an immense amount of money in our vaults that can not go out—and that requirement does not exist in those countries.

If you were to go to London and ask a joint-stock banker to tell you how much money he had in his till, or his own safe, he will not tell you. He will immediately tell you about his cash, and due from bank—he will tell you that his till money plus a balance in bank makes what he calls his "cash means," and what we call our reserves over here.

In 1908, when I was over there, the only question that the London banker would not answer very frankly was as to the amount of actual money in his vault. We made an estimate, however, as best we could from information gained on other matters and from conversations, and estimated the amount not to exceed 3½ per cent.

Senator SHAFROTH. In actual cash?

Mr. REYNOLDS. In the vaults of the London banks. Now, in Berlin, some of the joint-stock banks boasted that they kept no money in their vaults. They claimed that they could do all the business of Germany safely and efficiently with less than 1 per cent of money in their till. That represented the other extreme. They boasted of that as an example of the efficiency of reserve money in their system, through the mobilization of all of their reserves in the Reichsbank.

Now, in the passage of this bill as proposed, you, in my opinion, only go half way toward what they have done in the mobilization of reserves in Europe.

Do not misunderstand me, for I do not mean to say that I do not think that what this bill proposes will not do good. I think it will do great good. Just in proportion as it does mobilize reserves and make them available for use, it will help the situation.

For example, if we have too much money in New York and too little money in the South and the West, it is only through the mobilization of these reserves, where credit can be changed against them, that we can get relief. If we have to send the actual money and have the business done through the payment of money itself, we can not accomplish fully all that is needed.

Senator SHAFROTH. Then, your only objection to the legal-tender character of a United States note, or a Treasury note, such as is issued here, is not that it weakens currency, but that it has a tendency to inflate credit.

Mr. REYNOLDS. Absolutely.

Senator SHAFROTH. And that is the only objection you see to it?

Mr. REYNOLDS. Well, from that point of view; yes.

The CHAIRMAN. Do you mean to say "inflate" the credit or "enlarge" the credit?

Mr. REYNOLDS. Well, either one.

The CHAIRMAN. Well, one is in a harmful degree and the other is not necessarily harmful.

Mr. REYNOLDS. I would say "inflate," then, because I would think it would have a tendency to create more notes than there should be. That, I think, would answer your question.

The CHAIRMAN. But I was speaking of credits, not notes.

Mr. REYNOLDS. Yes, sir.

Senator SHAFROTH (interposing). Will you estimate the extent of inflation that would be brought about by the making of these notes legal tender?

Mr. REYNOLDS. I could not do that offhand. It would be a complex mathematical problem, and this is too important a matter for me to make a mere guess of that character.

The CHAIRMAN. Is it the general practice of the banks to send these national-bank notes in for redemption when they come into their hands?

Mr. REYNOLDS. I do not imagine it is, Mr. Chairman, with the smaller banks; but the national-bank examiners in an institution like ours insist on a separation of the money. Up to about two years ago they permitted us to count different kinds of money as lawful money. That is to say, we might have $100,000 in a package of $1,000,000

that would be bank notes, and they would pass those notes without any criticism.

Mr. FORGAN. Well, they took the percentage into consideration.

Mr. REYNOLDS. They pretended to take the percentage; but they did not count it literally.

Mr. FORGAN. No.

Mr. REYNOLDS. But they now require us to separate and segregate the different kinds of money, and our records show every night what kind of money we have; and in that way we are every day forwarding them to the Treasury Department at Washington as the only basis upon which we can get legal money against those notes. As I say, we have $987,000 tied up at this moment.

Senator SHAFROTH. Do you send those notes to the Treasury Department by express?

Mr. REYNOLDS. By express, yes; and it is rather an expensive proposition. In the first place, it takes about three men in our institution to assort and count the money, and then we have to pay the express charges both ways.

The CHAIRMAN. If that money was legal tender, it would not be sent in for redemption, would it?

Mr. REYNOLDS. It would not be sent in for redemption; no.

The CHAIRMAN. That would at least be an economic advantage in that particular, would it not?

Mr. REYNOLDS. Well, you might save a quarter at one end and lose a dollar on the other end.

The CHAIRMAN. What is the dollar that you would lose on the other end?

Mr. WEXLER. It might be legal tender and still not legal reserve money.

The CHAIRMAN. It would under the law; if it were legal tender it would be lawful money?

Mr. WEXLER. It would not necessarily be counted as the national bank reserves. I think the two are quite different; that is, as to whether a note is legal tender and whether it is good to count as reserves.

The CHAIRMAN. The two things need not go together, of course, but under the present law legal tender, being lawful money, would come within that rule?

Mr. FORGAN. But if they were legal tender you could force anybody else to take them, so that they would be equal to gold.

Mr. REYNOLDS. And that is very largely the explanation of the reason why the banks which issue a large amount of national-bank notes are glad to have State banks take their circulation and lock it up as a part of their reserves.

The CHAIRMAN. Does not the legal-tender quality of the notes of the Bank of France and of the Bank of Germany relieve to that extent the need for actual gold?

Mr. REYNOLDS. No; I would not say that.

Mr. SPRAGUE. Mr. Chairman, might I be permitted to make a statement at this tme?

The CHAIRMAN. Yes. Gentlemen, this is Prof. Sprague, of Harvard University.

STATEMENT OF PROF. O. M. W. SPRAGUE, OF HARVARD UNIVERSITY, CAMBRIDGE, MASS.

Prof. SPRAGUE. The issues of the Reichsbank of Germany were made legal tender only three years ago, in the last revision of its charter. They had been accepted quite readily by the other banks, and the proposition to make them legal tender was in no sense a banking proposal.

They were made legal tender because it was thought that in case of war the notes would be more serviceable for the Government, since in case of war a very large issue of Reichsbank notes will unquestionably be made. It was thought desirable to insure the general acceptability of those notes for that reason and for that reason alone.

Similar is the case of the Bank of France. The notes were made a legal tender at the time of the Franco-German War, in 1870, in order to secure their general acceptability throughout the country. The Government was at that time, through the Bank of France, making large loans, and the notes were going into circulation in enormous quantities, and were not, at the moment, redeemable in gold.

Senator SHAFROTH. That was considered, then, the strengthening feature to the currency, was it not?

Prof. SPRAGUE. Yes; but not for banking purposes at all.

Senator SHAFROTH. Yes; purely as a national currency?

Prof. SPRAGUE. Yes.

Senator BRISTOW. I understand you, Mr. Reynolds, from your remarks, to object to the greenback as a currency?

Mr. REYNOLDS. Yes, sir.

Senator BRISTOW. What is your objection to it?

Mr. REYNOLDS. Well, the objection to it is that it is an inflation through the creation of fictitious credits.

Senator BRISTOW. What is the difference in principle between the national bank notes and the greenbacks?

Mr. REYNOLDS. Just the difference that one is absolutely secured by specific deposit of specific collateral in one form or another, while the other has nothing but a general promise to pay back of it.

Senator BRISTOW. Well, that is a Government obligation in both cases?

Mr. REYNOLDS. It is a Government obligation in both cases; yes, sir.

Senator BRISTOW. So that in principle it is the same, is it not?

Mr. REYNOLDS. Well, it is entirely different in principle, in that one is secured and the other is not. If you were to let the national bank issue its notes without any collateral deposit, they would be the same.

Senator BRISTOW. Mr. Chairman, there is a call for a vote, and we will have to go to the Senate; so I will continue this line of questions later.

(Thereupon, at 10.50 a. m., the committee took a recess of 15 minutes, at the conclusion of which the following proceedings were had:)

The CHAIRMAN. Senator Reed, did you desire to ask some questions?

Senator REED. Mr. Reynolds, you have spoken of bank notes, and have said that back of every bank note there was security. Now, just what is back of a bank note?

Mr. REYNOLDS. I am speaking about the notes that this bill contemplates issuing. They have back of them, first of all, a gold reserve of 33⅓ per cent. They have, in addition thereto, a specific deposit of 100 per cent of that in commercial paper; and in addition thereto they have the entire liability or responsibility of the banking institution issuing the notes.

Senator REED. Now, referring to this bill, there would be 33⅓ per cent gold on deposit all the time in the vaults of the reserve banks—the regional bank. There would be no money issued unless it was backed by that 33⅓ per cent, in the first place?

Mr. REYNOLDS (interposing). There could not be, under the law.

Senator REED (continuing). And, second, there would be 100 per cent of notes of customers; and those notes would be indorsed, in turn, by the member bank—but, of course, these notes do not have to be indorsed by all the member banks?

Mr. REYNOLDS. No, sir.

Senator REED. They would only be indorsed by the bank that wanted to obtain the money?

Mr. REYNOLDS. They would be indorsed by the bank that would rediscount the paper with the Federal reserve bank.

Senator REED. Yes. The method would, then, be that if the First National Bank of Oklahoma wanted to get $100,000 of notes issued to it, it would take $100,000 of securities which would consist of the promissory notes of A, B, C, etc., and carry them to the regional bank, and the regional bank would deliver to them $100,000 of currency. Is that correct?

Mr. REYNOLDS. Yes, sir. But it might be received by them, Senator Reed, through another process. Of course, in the natural transactions of business between banks, the Oklahoma bank might secure credits—I mean by that checks or drafts upon other member banks—which it could deposit with the Federal reserve bank, thereby increasing its balance with that bank to an amount greater than its required reserve, and whatever amount they would have to their credit in excess of the amount which they would be required to carry with that bank as a part of their reserve, they could get in bank notes by issuing their check upon the Federal reserve bank.

Senator NELSON. May I put a question right there, in connection with that, Senator Reed?

Senator REED. Certainly, Senator Nelson.

Senator NELSON. Now, the bank deposits its commercial paper and takes the currency of the regional bank, which supplies the reserve of 33⅓ per cent. Is that supplied by the bank asking for the currency, or is it supplied by the regional bank?

Mr. REYNOLDS. It is supplied by the regional bank.

Senator REED. Now, where does the regional bank get its gold?

Mr. REYNOLDS. The currency?

Senator REED. The gold.

Mr. REYNOLDS. Well, it must get it by assembling gold in its natural conduct of its business. It will have deposited with it various forms of credit, and it will have more or less deposited with it in the natural course of business. For instance, in the transaction

of business our institution, if it should have a deficiency with the Federal reserve bank at the close of the day and it would be our duty to make that good, we might have an excess of reserve money in our vaults which we could deposit there and make it good.

Senator REED. You would be required to send up gold, would you not?

Mr. REYNOLDS. We would not be required to send up gold. That duty, or the duty of maintaining the gold reserve, would devolve upon the management of the Federal reserve bank. They would have to look out for that in their transactions of business with the member banks. It could be done in many ways, chief among which would be by the converting, if it wanted the actual specie, of the gold certificates which would come into its hands.

Senator REED. You have come to the very question I was going to ask. The Government has $1,100,000,000 of gold certificates outstanding?

Mr. REYNOLDS. Yes, sir.

Senator REED. And back of that, it has the same amount of gold; and that, I believe, you bankers insist is not entitled to be signified by the name of money. You say it is a warehouse receipt. It is a pretty good one, however, is it not?

Mr. REYNOLDS. Yes, it is.

Mr. WEXLER. It comes nearer to being money than anything we have got.

Senator REED. Now, about the first thing the banks would begin to do under this system would be to lay aside all the gold certificates they could get, would it not?

Mr. REYNOLDS. That is what they would do, in my opinion.

Senator REED. And about the next thing they would do would be to transfer the present gold that is held back of those certificates into their own vaults, would it not?

Mr. REYNOLDS. Well, they might, or they might not.

Senator REED. Well, do you not think, Mr. Reynolds, in all candor—and that, of course, is what we all want to use—that that is practically inevitable?

Mr. REYNOLDS. I do not honestly believe that, Senator Reed.

Senator REED. Do you not think it is very likely?

Mr. REYNOLDS. No, I do not, and for this reason, that there is a great abrasion in the use of coins, which ultimately brings a great loss to large institutions like ours, and so long as certificates will serve the same purpose as gold will serve, we much prefer the certificates.

And I might carry the illustration a little further, by stating that if we, in Chicago, were to fill the order of the ordinary country banker, or reserve city banker for currency by sending them gold, we would insult them mortally, because they say that they do not want it; they want currency, because it is more convenient to handle and to transport.

Senator REED. Let us look at it in another way. You would accumulate these gold certificates, at least, putting them into your reserves as gold, would you not?

Mr. REYNOLDS. Not more than the legal reserve requirements would make it necessary.

Senator REED. But the legal requirement would be 33⅓ per cent of all the money that was issued by the banks. And as you want to issue enough money to transact the business of the country, how much will that be?

Mr. REYNOLDS. Well, but we need but little more money now than we have now. It is only at certain seasons of the year, in the cotton season, or the season when we have an undue activity in business, that we need much more of a circulating medium.

Senator REED. Now, you have to keep 33⅓ per cent of your deposits——

Mr. REYNOLDS (interposing). I beg your pardon?

Senator REED. You have to keep now 33⅓ of your deposits——

Mr. REYNOLDS (interposing). You are speaking of Federal reserve banks?

Senator REED. Yes; I am speaking now of this plan—this scheme that is outlined in this bill.

Mr. REYNOLDS. Yes, sir.

Senator REED. Now, what are the aggregate deposits of all the national banks to-day?

Mr. REYNOLDS. $7,100,000,000.

Senator REED. Well, it is proposed to take into this bill—at least it has been advocated here—State banks and trust companies?

Mr. REYNOLDS. Yes, sir.

Senator REED. Very well. How much free gold, about, Mr. Reynolds, is there now in the banks available for gold reserves?

Mr. REYNOLDS. I have not that at the end of my tongue, but there is somewhere around $500,000,000 and $600,000,000, I should say.

Senator REED. $500,000,000 or $600,000,000?

Mr. REYNOLDS. Yes; I should say that. The report will show.

Senator REED. Well, there is $600,000,000 of free gold in the banks to-day. You are going to establish a system now which, without any emergency currency and without any inflation of any kind, amounts to $7,000,000,000, in round numbers. You must have 33⅓ per cent of that in gold. Now, where are you going to get that gold if you do not go down to the Treasury of the United States and get this $1,100,000,000?

Mr. REYNOLDS. Well, Senator Reed, you were not here yesterday, I believe?

Senator REED. No; I unfortunately could not be here.

Mr. REYNOLDS. I submitted then a statement showing what I believed would be the status of the reserves of the various banks of the country, and of the Federal reserve bank after this whole plan, if it is enacted into law as it is now proposed in the bill, should go into effect, and on the assumption that all the national banks would come in to it; and that statement shows that after the plan should be put into operation that the requirements for reserves would be $968,000,000, of which $447,000,000 would have to be in their vaults, as compared with $913,000,000 at this time.

(Thereupon, at 11.18 a. m., a recess of 10 minutes was taken, after which the following proceedings were had:)

The CHAIRMAN. Senator Reed, do you desire to continue your questions?

Senator REED. Yes, Mr. Chairman. Mr. Reynolds, I do not understand how you can have $7,000,000,000 of circulation out, and 33 per cent of that gold.

Mr. REYNOLDS. We have not $7,000,000,000 of circulation out; we have $7,000,000,000 of deposits.

Senator REED. I meant to say $7,000,000,000 of deposits, with 33⅓ per cent back of it, unless you have over $2,000,000,000 of gold in your reserve.

Mr. REYNOLDS. We do not expect to have that in this bill. It does not provide for that, Senator Reed.

Senator REED. You do not expect to have what?

Mr. REYNOLDS. $7,000,000,000, secured by $2,000,000,000 of gold. As a matter of fact, Senator, if I am correct——

Senator REED (interposing). Oh, I am confusing two different things; I see the difference now.

Mr. REYNOLDS. I think you are confusing credits and notes.

Senator REED. I see that very plainly now. I did not have my mind on this examination just then. Coming, now, to the question of circulation, what would be the circulation in normal times?

Mr. REYNOLDS. Well, it would be not a great deal more than we have outstanding now.

Senator REED. Yes; how much?

Mr. REYNOLDS. I should say $700,000,000.

Senator REED. $700,000,000. Now, you say that a greenback is not good money——

Mr. REYNOLDS (interposing). No; I do not want to say that it is not good money. The question of the security of it makes for its goodness or badness, in my opinion. And I want to say now, with the cash reserves—gold reserves—of 40 per cent, which is carried against greenbacks, we do regard that as good money.

Senator REED. Well, do you not think that the Government of the United States back of a note is a little higher security than the promise to pay the same amount by some individuals?

Mr. REYNOLDS. Well, I think that of the two promises to pay, the promises of the Government would be stronger, but I do not care so much for their promises to pay as I do for my belief in their ability to pay on demand.

Senator REED. Well, if the Government of the United States has a gold reserve of 33⅓ per cent, and then issues its note, back of which is the faith and credit and taxing power of the United States, which is absolutely unlimited to-day for all practical purposes—would you think that is as high a class of security as a note of a bank with the same gold reserve and nothing else back of it except the capital of the bank and the notes of private individuals?

Mr. REYNOLDS. Yes; I do. I think a Treasury note with 33⅓ per cent of gold reserve back of it creates a fairly stable reserve. I would not agree in theory, however, that it is better than the other, because if they both served the same purpose, one would be as good as the other.

Senator REED. Well, I am not talking about the question of whether they serve the purpose, because as a matter of fact, the greenback, without any reserve at all back of it for many years circulated

generally and was accepted generally by the people, and in that sense served the purpose as a gold certificate.

Mr. REYNOLDS. Well, there came a time when it did not do that, Senator.

Senator REED. Well, it has not come since we remonetized gold.

Mr. REYNOLDS. No.

Senator REED. I mean since we demonetized silver.

Mr. REYNOLDS. We did not have much to do with it.

Senator REED. Now, I get the idea from you, then, that if the Government had a 33⅓ or a 40 per cent gold reserve and issued the money itself, that would be reasonably stable money?

Mr. REYNOLDS. I think it would; yes, sir.

Senator REED. It would be what you call safe money, would it not?

Mr. REYNOLDS. Yes; I should say it would.

Senator REED. Now, what objection is there to the Government retiring its gold certificates and issuing greenbacks in lieu of them and utilizing its present gold reserve of $1,100,000,000 back of the greenbacks, or the Treasury notes, or whatever you call them?

Mr. REYNOLDS. Well, I think you would find that you would not have that supply of gold by the time you got to that issue; because the people have the gold certificates now and they know they are secured by 100 cents on the dollar, and you would have to have those certificates surrendered voluntarily in order to enable you to utilize that gold.

Senator REED. They circulate regularly, do they, through these channels?

Mr. REYNOLDS. Yes; I think they would, Senator. You would create the condition to which you referred awhile ago, namely, that under those conditions the banks would probably cash in their gold certificates and take the coin itself in lieu of it.

Senator REED. You do not want me to understand, now, that if the Government was to embark upon the policy of issuing this money and have a reserve of 40 per cent in gold, that the banks of this country would organize a raid upon the notes of the Treasury and block the Government in that sort of beneficent purpose?

Mr. REYNOLDS. No.

Senator REED. If you do, I should have to revise my opinion of the banks.

Mr. REYNOLDS. No; I do not think that. But in addition to the amount of the notes of that character held by the banks there would probably be $600,000,000 to $700,000,000 of it in the hands of the people. How are you going to get those notes surrendered that are held in the pockets and the hands of people individually?

Senator REED. Do not they all come into the banks, or substantially all of them, every week in the year?

Mr. REYNOLDS. They do in the natural course. I can not think there is any tendency toward discrimination under conditions between those notes and other kinds of money.

Senator REED. You bankers want the Government to remodel this currency system, and I think you are asking for some bill, perhaps, with more eagerness than any other class of people, and for which I do not at all criticize you. Suppose that the bill that was proposed by Senator Shafroth should be concluded by us to the best plan, and, speaking roughly—if I do not state it right Senator Shafroth will

correct me—he advances the idea in that bill that the Federal Government, whenever a gold certificate comes into its possession, shall retire that certificate, when it comes in in the natural channels of trade, payment of dues, etc., by simply taking it and destroying it, thus retaining the gold; and then issuing $2 for each gold dollar of Federal notes, by whatever name they may be known, and back of these notes retaining one gold dollar; that is, for $2 of paper retaining $1 of gold. If that plan should be determined on, would we not have the cooperation of the banks?

Mr. REYNOLDS. In so far as they would have an ability.

Senator SHAFROTH. Let me explain it just a little further.

Mr. REYNOLDS. Yes.

Senator SHAFROTH. The certificates that come into the Treasury are canceled; a note takes the place of the certificate—a United States note, full legal tender—for the payment of all debts; and then another note is issued with which to retire the national-bank notes when they come into the Treasury, upon request of the national banks. In other words, if you want the currency of your national bank retired you let the United States Government assume the redemption of them, and they have to retire that quantity and issue in lieu of those notes the full legal tender. To state it another way, it does not inflate the currency one particle; it just substitutes for the gold certificate a like amount of legal tender notes, substitutes for the bank notes as they come in voluntarily by the bank, dollar for dollar, those, and leaves a surplus of reserve over 50 per cent of about $178,000,000 of gold.

Mr. FORGAN. Does the Government retire the bonds?

Senator SHAFROTH. Yes. The Government pays to the banks the 2 per cent bonds in full at par.

Mr. WEXLER. Do they provide redemption facilities for the notes?

Senator SHAFROTH. Not except they come into the Treasury. It is supposed that the inducement for the banks to retire their circulation will be that they will get full legal-tender money for their 2 per cent bonds.

Mr. WEXLER. I mean after that operation has taken place, and you have made retirement of the notes outstanding, with 50 per cent gold reserve, then what machinery have you for adjusting the quantity of notes outstanding to the requirement of commerce for the retirement of the excess?

Senator SHAFROTH. There is nothing. There is the really inflexible part of the currency. It does not deal with the question of the emergency currency; it only deals with the question of having dollar for dollar for the gold certificate and dollar for dollar for the bank notes, and then provides that there shall be a gold reserve maintained at 50 per cent, and that in addition to that the Treasurer is directed to buy gold or to sell bonds for the purpose of maintaining that reserve at 50 per cent.

Mr. REYNOLDS. How do you provide that you are to maintain this 50 per cent to start with?

Senator REED. In the first place, we put it in the vaults and keep it there, and we do not issue any more money—that is, under this plan—than 2 for 1. I am not advocating this plan; I am asking for information.

Mr. REYNOLDS. We understand your attitude, I think, Senator, thoroughly.

Senator REED. In other words, we now have $1,100,000,000 of gold in the vaults, for which there is a gold certificate, and that is 100 per cent reserve. We may use that term. It seems to be conceded that 40 per cent is enough for banks to have. Instead of retaining that gold dollar for dollar for these certificates, to transform it into a 50 per cent reserve. Having a 50 per cent reserve, we would not, as Senator Shafroth has stated, inflate the currency. If that could be done, the first question I want to get at is that that would furnish a reasonably stable and safe money, would it not?

Mr. REYNOLDS. I think it would, and I think, frankly, that you could work it out so that it could be done, if you want to put the Government into the banking business and have it assume that responsibility.

Senator REED. That is another question, whether we want to put it into the banking business. Coming to the question of inflation on account of emergencies, the getting of more money when you banks need it——

Mr. FORGAN. Let me make a suggestion in regard to what you have been talking about.

Senator REED. Yes.

Mr. FORGAN. You have whatever amount you have out of these notes secured by 50 per cent gold. You have got, of course, to calculate upon redemption; you can not have the amount fixed. You may call it the "staple circulation" and "rigid circulation," but the redemption will go on. You reduce it to a small amount. Suppose the Government had $2,000,000 of such notes out, secured by a reserve of $1,000,000. It would only require $1,000,000 to be presented to use up the whole $1,000,000 of gold, and you have got $1,000,000 out without any gold reserve behind it.

Senator REED. I understand that. Let us apply that to the bank. The reserve bank has got $2,000,000 of paper out and $1,000,000 of gold. A gentleman walks up some morning with $1,000,000 of this paper and says, "I want the gold," and you pay it to him, and you are in just the same fix the Government would be, that far in the transaction.

Mr. FORGAN. Except——

Senator REED. "Except." Now, you have got, in addition to that, certain resources. You have notes.

Mr. WEXLER. Capital.

Senator REED. And you have some capital. But I want to know if you think the gold reserve in the hands of the Government would be raided any more than it would be in the hands of the banks?

Mr. FORGAN. The Government is not protected as the banks are in this way, because of the regular operation that takes place in the banks. While what you say would be profitable, the banks are protected in that, in that when they pay out notes they get something for them; they get either gold or they get good commercial paper or bills of exchange. These are being all the time converted, as it matured into redemption money. The Government has no such process, and it would resolve itself down to this, that what actually takes place in the banks is that when notes are presented to the banks—when they are paid out by the banks, it is generally against a

deposit, and the deposit liability is changed into a note liability, and when they come back again they come in the deposit.

Senator REED. In other words, there is a stream of money coming into the bank all the time?

Mr. REYNOLDS. All the time; yes, sir.

Senator REED. Is there not a stream of money coming into the Federal Treasury all the time?

Mr. REYNOLDS. No.

Senator REED. I think there is. You shake your head, but I think there is.

Mr. WEXLER. There is a stream of money coming into the Treasury, but the stream that is going out by appropriations is as great as the stream coming in.

Senator REED. And part of that money must be gold just the same as part of the money coming to the bank is gold?

Mr. FORGAN. Not for that purpose.

Senator REED. If we wanted to do it, we could make a percentage of our dues and customs actually paid in gold. I do not know how wise that would be, for it seems to me that would attack the value of the currency or the stability of it.

Mr. FORGAN. This would require that the Government could keep its revenues as it receives them, in its own hands, and not go in any regional banks, as is proposed.

Senator REED. If it went into the regional banks under this plan, the regional bank would have to be ready to respond to the Government in the case of demands for gold being too heavy, of course, if you let it out. I am going to get your mind directed to this, because——

Senator BRISTOW. Let me inquire, if the Senator will excuse me, why is not all the gold that is behind the greenbacks taken out?

Mr. REYNOLDS. It is.

Mr. FORGAN. There is no actual redemption takes place.

Senator BRISTOW. We keep money there to do it, if the demand comes.

Mr. FORGAN. The greenbacks are being used for the subsidiary currency. They are all small notes and mostly in the hands of the people and hands of the banks for the purpose of paying out.

Senator REED. Could we not have some small notes that would be in the hands of the people under this plan?

Mr. REYNOLDS. What would be the mode of protecting your reserves, except through the levying of taxes on the one hand or selling bonds on the other?

Senator REED. I do not know that there would be any other except this, that unless the gold had been absolutely frightened out of the country, that it would naturally flow into the Treasury, just as it would naturally flow into these banks. I want to say to you, gentlemen, with all candor, that I have not made up my mind about a single letter, line, or syllable of this bill.

Mr. REYNOLDS. We are very glad to know that.

Senator REED. But I want to know what there is about a bank that enables it to get gold when a Government that is collecting $2,000,000,000 a year——

Mr. REYNOLDS. It has many things.

Senator REED (continuing). Can not get some gold.

Mr. REYNOLDS. It has many things. First of all, it has assets maturing every day as we go forward in the transaction of our business. It has bills of exchange which are salable immediately; it has commercial paper maturing every day; it has an ability, through the exercise of the raising of the rate of interest, to protect its gold, whereas the Government would not. On the other hand——

Senator REED. Let us take one thing at a time. You are an expert on this, and I am a farmer on it.

Mr. REYNOLDS. We are all farmers.

Senator REED. Sometimes I think when I hear great financiers talking and seeing how they differ, I conclude we are all in the realm of speculation to some extent, although I think you men who have been in the business ought to be able to draw pretty accurate conclusions. The first proposition is, you say you can get gold, because there is money flowing into the banks; but that money which comes into the banks is not necessarily gold?

Mr. REYNOLDS. No; I said because we have assets which we can readily turn into——

Senator REED. Into what?

Mr. REYNOLDS. Cash.

Senator REED. That is it, into cash; but you can not readily turn them into gold.

Mr. REYNOLDS. The sentiment of the public will determine how readily this can be turned into gold.

Senator REED. That is true of you, and that would be true of the Government. The sentiment of the public is an important thing in all this, is it not? As long as everybody has implicit confidence in the banks of the country, nearly everybody that has got any sense puts his money into the bank, and when confidence becomes very greatly shaken a great many people with sense pull their money out.

Mr. FORGAN. Lack of it.

Senator REED. And some from lack of it. [Laughter.] And yet I heard the other day a banker say that you bankers among yourselves, when there was a shiver in the financial market, proceeded to pull your money out of the centers just like the ordinary farmer does.

Mr. WEXLER. Exactly. We all do that, but the law makes us do it; that is the trouble.

Senator REED. I think I will not pursue that further.

Mr. FORGAN. I would like to say this, that I think it has not been brought out sufficiently clearly. One thing that the banks have is that they are handling all the exportations of merchandise to foreign countries, and they get bills for that payable in gold. They get gold balances in all the countries with which they deal, and they draw gold from practically the whole mass of gold in the world, which the Government has no possibility of doing, except by selling bonds in foreign countries, which is a new obligation.

Senator REED. That is true; and that is a thing that is very obnoxious, I know, except in emergency.

(Prof. Sprague arose.)

Senator REED. Did you desire to say something?

The CHAIRMAN. We will hear Prof. Sprague, of Harvard.

Prof. SPRAGUE. There is a certain amount of money that is always required in any country, for pocket purposes for use outside the banks,

which will never be presented for redemption. That amount of money a Government can issue with such a reserve only as may be needed to inspire confidence. What amount that may be one can not say offhand. There are at the present time something like $1,500,000,000 of money in circulation outside the banks, and about the same amount in the banks. With changes in the activity of trade there are changes in the amount of money that is used outside of the banks. If such a change takes place, tending to lessen the amount of money that is being used, a certain amount of money will be presented for redemption. We can, however, be absolutely certain that if in normal times $1,500,000,000 is used outside the banks, that it will never happen that so little as 1,000 million will not be wanted. I say "1,000 millions" will always be wanted. It will never be presented for redemption; and so we find in fact that the greenbacks and silver certificates are not presented for redemption.

The Government can perfectly well establish a reserve for the amount of money which is certain to be wanted in every conceivable circumstance; but for the variable part of the circulating medium the Government is not in such good position as the banks, because its only resource when contraction naturally comes about is the sale of bonds. Banks can contract their loans; banks can raise the rates of discount; banks can borrow abroad on short-time obligations; and for these reasons the fluctuating portion of the circulating medium can be far more handily managed by banks than by the Government. In this particular proposal regarding gold certificates and the national bank notes, if the total issue under this plan would not amount to any more than we are quite certain would always be required within the country, then it is a perfectly safe proposition. If this total should be $100,000,000 or $200,000,000 more than might be needed outside the banks, then it is not quite so safe a proposition; or at any rate it is a proposition which would involve the Government from time to time in sales of bonds to strengthen its reserves. It is a simple question to determine how much money in this country will in all circumstances be required for conducting everyday transactions, no matter how depressed business may be.

Senator SHAFROTH. Let me read this bill—it is short—so that the exact features of it may be known.

Senator REED. I wish you would let me ask a question here, Senator.

Senator SHAFROTH. All right.

Senator REED. I suppose, Prof. Sprague, that this money that you say will always stay out in the hands of the people, will do it as well for the Government as for the banks?

Prof. SPRAGUE. Yes.

Senator REED. Credit, the confidence of the people in the circulation, has something to do with the ability to float it?

Prof. SPRAGUE. Somewhat; yes.

Senator REED. Has it not a great deal to do with it?

Prof. SPRAGUE. If you should assume a government in which the people had no confidence whatever——

Senator REED. I am not speaking about governments. I say the confidence of the people in a circulating medium, no matter whether issued by a bank or by the Government, has a great deal to do with

the ability to float it, has it not, either by banks or by the Government?

Prof. SPRAGUE. Yes.

Senator REED. Do you think the people of the United States have not got more confidence in their own Government than they have in all the banks in Christendom——

Prof. SPRAGUE (interposing). Why——

Senator REED (continuing). An ultimate paymaster, a Government with 100,000,000 of people and the right to tax them, a Government that stands in a position that is regarded by every man in the world as impregnable, so far as the ability to defend itself, and a Government that has never repudiated its promise in 130 years?

Prof. SPRAGUE. Yes; but the causes for redemption are sometimes other than lack of confidence—inactive business, for example.

Senator REED. I am just speaking, Professor, of the matter of confidence.

Prof. SPRAGUE. Yes, so far as that element goes, there is sufficient confidence.

Senator REED. I did not mean to interrupt your answer, if you had something else that you wanted to say about that.

Prof. SPRAGUE. Assuming complete confidence in the currency issued by a Government, then it still is true that for the fluctuating portion of the circulating medium, banks can handle it better than the Government, because they are engaged in short-time operations.

Senator REED. That is a question of facilities?

Prof. SPRAGUE. Yes.

Senator REED. I want to trace the rest of your answer of a moment ago just a step further. You say that the banks could get money to make up their reserve by buying gold in Europe on short-time obligations. Do you know of any reason why the Government of the United States can not issue a short-time obligation as well as a long-time obligation, if it saw fit?

Prof. SPRAGUE. If the Government does that, it does not lessen in the slightest degree the lending powers of the banks. They may go on lending under those circumstances, causing prices to continue to advance or not to go down, so that no check will be imposed on gold exports.

Senator REED. Then you think that it is necessary to put into the hands of the banks the power to control prices, in order that we may have a safe currency?

Prof. SPRAGUE. They will not control prices; they will be controlled by price movements. If prices advance unduly because of the excessive expansion of credit, gold exports are pretty certain to take place and the banks in self-defense are required to contract credits; whereas the Government is entirely responsible for the circulating medium and can not and does not control the banks.

Senator REED. Does not control credits?

Prof. SPRAGUE. Does not control credits. Its sale of bonds abroad will simply add to the lending power of the banks by bringing back to the country the gold which natural forces had caused to be exported.

Senator REED. I want to get this matter clear in my mind. The real basis of safety, then, in a currency system controlled by the banks is that the banks have the ability to control the tides of com-

merce—the prices—and therefore they ought to have and must have that power, for that is the power that makes them safe.

Prof. SPRAGUE. I should put it the other way: The currents of commerce control banks, except for short periods of time. Banks may borrow for a few months abroad, and so stave off gold exports, but if the currents of trade and the level of prices is such that we are upon a foundation which is not solid, banks can not possibly maintain that position indefinitely. For a short period of time banks are able to influence the movements of gold between countries, but fundamentally their operations are determined by commercial conditions.

Senator NELSON. Senator Reed, will you allow me to just make one suggestion in there, to help this along?

Senator REED. Yes.

Senator NELSON. I want to call your attention, as an illustration of how gold is imported by the banks: During the panic of 1907, we imported over $90,000,000 through the banks here upon commercial bills, based upon cotton, wheat, and flour, and got over $90,000,000 in that way through that source, based upon trade and commerce. They were not financed bills, but what they call commercial bills. Am I not correct?

Mr. WEXLER. You are perfectly correct, sir.

Senator REED. I want to go back now to the question of inflation. The Government finds its gold reserve is getting low, and issues $100,000,000 of bonds, short or long—I do not care anything about that—and it gets $100,000,000 of gold in Europe and brings it here. You say that does not help the situation any, because trade goes on just the same?

Prof. SPRAGUE. It may make the situation worse.

Senator REED. But banks issue $100,000,000 of their paper and send it over to Europe and bring in $100,000,000 of gold. What is the difference?

Prof. SPRAGUE. The difference is this: The banks have utilized $100,000,000 of their lending power; they are less able to further expand credit in this assumed undesirable condition of affairs than they were before, whereas if you should sell $100,000,000 of bonds and get the same amount of gold, the banks' lending power is not diminished one iota.

Mr. WEXLER. Senator, what guaranty have you——

Senator REED. Don't you ask me questions until I get through with this, because I will get a mile and a half off of the subject I am trying to follow.

Mr. WEXLER. It is pertinent to your question about selling the $100,000,000 of bonds. We have got to find a purchaser before we can sell them.

Senator REED. The difference between the bank selling them and the Government is that there is an actual check upon the bank, that when it has exhausted $100,000,000 of its debt-making ability in that way it has to begin to put the brakes on?

Mr. WEXLER. It may help some little.

Senator REED. That is the tendency. I do not mean at $100,000,000 it would stop, but when they got out a certain amount, they have to stop because of exhaustion?

Mr. WEXLER. Yes, sir.

Senator REED. Suppose the Government stops because of common sense, and just did not stop because it had to, but because the Secretary of the Treasury said:

We have gone about as far as we are going to go on this and we will not go any further.

Prof. SPRAGUE. When the Secretary of the Treasury does that, he must sooner or later refuse to redeem these notes in gold. When the banks adopt this policy you suggest they simply begin to contract credit, which we have assumed was overexpanded, and was the occasion of this redemption.

Senator REED. What is to hinder the Government, when it gets this $100,000,000 of gold, to use it actually to retire its obligations. It will do that, will it not?

Prof. SPRAGUE. It will do that.

Senator REED. Just coming down to the plain, ordinary, common sense of a situation, getting both your head and mine clear out of the air, getting away from books and theories, do you not think if the Government of the United States issued a reasonable amount of money, backed by a 50 per cent gold reserve and the faith and credit of the United States, that in the absence of some great international war—I will put that in for the present—would there ever be any danger of a raid upon the Treasury?

Prof. SPRAGUE. The "reasonable amount of money" to which you refer is in my mind the permanently required amount of money. If by "reasonable amount of money" you mean to include that variable amount which is required in varying conditions of trade activity, then I do not agree with you.

Senator REED. When I said "reasonble amount of money" I meant just what I said. A thing is "reasonable" when, taking into consideration all the facts and circumstances and conditions, you proceed with that judgment which an ordinarily prudent man, skilled in the business, would exercise under the same or similar circumstances. That is what I mean by "reasonable."

Prof. SPRAGUE. That, to my mind, would mean the permanently needed circulation of the country, and no more.

Senator REED. I come to the next question—and I thank you, Professor—which I wanted to ask Mr. Reynolds. Taking the bank notes that we have out now—the greenbacks and the gold certificates——

Mr. WEXLER. And the silver.

Senator REED. And the silver; that would be a reasonable amount, would it not?

Mr. WEXLER. I think it would.

Senator REED. For ordinary times?

Mr. WEXLER. And if it were not "reasonable" this year it would certainly be reasonable within five years, because of the growth and population and trade of the country.

Senator REED. I wanted to ask Mr. Reynolds a question, and then I am going to yield. Mr. Reynolds, it seems to be conceded that 33⅓ per cent is a pretty fairly safe gold reserve to be held by the banks or to be held anywhere. We have been talking about a 50 per cent gold reserve. Suppose, now, that the Government starts with the policy of ordinarily maintaining a 50 per cent gold reserve,

but there comes a crop-moving time or emergency period, and suppose that they were then to issue enough money so that their reserves would go down to 40 per cent or even 33 per cent, temporarily—issuing this money in some way to provide for its speedy retirement, do you think that would be a just operation?

Mr. REYNOLDS. I rather think it would, Senator, for the reason that if the bank were to follow that practice the public would understand that just in proportion as its reserve would go down it would receive an asset on the other side.

Senator REED. The Government must receive an asset. For instance, the Government has out in circulation to-day approximately $700,000,000.

Senator SHAFROTH. In bank notes.

Mr. FORGAN. $700,000,000 in bank notes alone. The circulation is a billion and a half.

Senator SHAFROTH. There are $346,000,000 of greenbacks.

Senator REED. What is the circulation?

Mr. FORGAN. A billion and a half dollars.

Senator REED. That gets it into figures I can handle. I can think better than I can figure, and I do not know whether I do either one very well. But we have a billion and a half of money out now. Suppose that that billion and a half of money was one-half paper and one-half gold. Say that we have a 50 per cent gold reserve. There comes an emergency period. You bankers need some more money to handle the crops or any other purpose, and the Government then says:

> Well, bring us down $500,000,000 of gilt-edged securities, the best you have got, and we will then issue you $500,000,000 of paper.

That of course reduces our reserves proportionately, but we have got the paper.

Mr. REYNOLDS. I do not think that would disturb public confidence.

Senator REED. It would not disturb it a bit?

Mr. REYNOLDS. I do not think it would.

Senator REED. I thank you.

Senator SHAFROTH. Mr. Reynolds, I want to read this bill to you and ask your criticism. The object and purpose of this bill very largely was due to the fact that the original bill provided that the bank-note circulation should be retired; 3 per cent bonds should be substituted for 2 per cent bonds. That, I thought, was something that would not meet with my approbation, and I began to figure on this bill by reason of that. This is a bill entitled:

> A BILL Providing for the retirement of the national-bank notes, the gold certificates, and the United States notes now outstanding by the issuance of United States notes redeemable in gold, and for the establishment of a fifty per centum gold redemption fund.
>
> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That as gold certificates are received into the Treasury or any Subtreasury of the United States they shall be canceled and the gold represented by such certificates transferred to the reserve fund in the Division of the Redemption of the Treasury, and in lieu of such canceled gold certificates there shall be issued United States notes of like denominations, redeemable in gold coin at the Treasury or any Subtreasury or mint of the United States which may be designated by order of the Secretary of the Treasury, which notes shall be a legal tender in payment of all debts, public and private, within the United States and its possessions. And there shall also be issued at the same time a like amount of such United States notes for sub-

stitution for all national-bank notes and for cancellation of the bonds of the United States securing the same until all said national-bank notes are retired.

Mr. REYNOLDS. Excuse me, if I ask you questions as we go along for the clarification of my own mind, at least. You say as presented to the Subtreasury as the notes shall be canceled?

Senator SHAFROTH. Yes.

Mr. REYNOLDS. How are you going to have anything presented at the Subtreasury received, except by payment of gold against those notes?

Senator SHAFROTH. The Government collects its customs duties and other duties. It is paid into the General Treasury and the object is that when those gold certificates come into the General Treasury they shall be canceled.

Mr. REYNOLDS. You do not mean to apply that to a Subtreasury; you mean the General Treasury.

Senator SHAFROTH. I will put it General Treasury.

Mr. REYNOLDS. All right, that answers my purpose.

Senator SHAFROTH (reading):

SEC. 2. That upon the request of any national bank the Secretary of the Treasury is authorized, in his discretion, to assume the redemption of its national-bank notes, to pay to such national bank in cash the difference between the amount due at that date on the United States bonds securing said notes, and to cancel said bonds. When national-bank notes, assumed as aforesaid, shall be received into the Treasury or any Subtreasury of the United States, they shall be canceled and retired, and in lieu thereof, United States notes authorized by this act to the same amount, and like denominations shall be issued, paid out, and kept in circulation.

SEC. 3. That as the United States notes heretofore issued are received into the Treasury or any Subtreasury the Secretary of the Treasury is directed to cancel same and issue in lieu thereof United States notes authorized by this act——

That takes up the greenbacks.

And to transfer to the redemption fund herein created a proper proportion of the one hundred and fifty million dollars of gold now held to redeem same.

SEC. 4. That a gold reserve of fifty per centum of all United States notes issued and put in circulation under the provisions of this act shall be maintained in the reserve fund of the Division of Redemption of the Treasury—

That is a long name, but that is the name used in the statute.

Senator NELSON. What do you do with the silver certificates?

Senator SHAFROTH. We do not pass upon the silver certificates; they stand upon their own base.

Mr. WEXLER. Redeemable in gold.

Senator SHAFROTH. They may be redeemable in gold, but nevertheless they stand as they stand now [continuing reading]:

for the purpose of redeeming the same, and the Secretary of the Treasury is authorized for that purpose to purchase gold and exercise all of the powers granted to him by section two of the act of Congress entitled "An act to define and fix the standard of values, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," approved March fourteenth, nineteen hundred, and he is further authorized by general orders to require all national banks to keep in their vaults as their lawful reserve such kinds of United States money as he may deem to the best interest of the Government.

Mr. REYNOLDS. Now, Senator——

Senator REED. I am greatly interested in that answer, but we have to go to the Senate.

Senator SHAFROTH. Suppose you wait. I wish you would look at this. I would like to know what defects are in it.

(At this point the committee took a recess for 10 minutes, at the conclusion of which the following proceedings were held:)

Senator SHAFROTH. Mr. Reynolds, have you looked at the bill that I read to you, or do you remember its terms as I read it to you?

Mr. REYNOLDS. I think the inherent weakness of your bill is the fact that you do not provide that the reserves of banks must be in gold coin and not in lawful money. I think the fact that you stipulate that they must carry them as their reserves is the weakness of the whole situation. If you will eliminate that and substitute gold requirements for the reserves of the banks and redemption facilities, then I do not think there is any criticism that I should make.

Senator SHAFROTH. I thought your objection to the bank currency was very largely due to the fact that you have got to bundle up $1,000,000 or $2,000,000 every once in a while and send it down to Washington and lose by transmission.

Mr. REYNOLDS. I am not objecting to that. We believe in that redemption, and the free redemption, and we think one of the greatest difficulties with the bank note is the fact that there has not been redemption of it.

Senator SHAFROTH. You, by preference, use the United States note, commonly called the "greenback," now in your reserve?

Mr. REYNOLDS. To gold?

Senator SHAFROTH. In preference to gold.

Mr. REYNOLDS. No; we do not use it in preference to gold. We prefer the gold certificates, because they are the nearest substitute for gold—in the most convenient form to handle.

Senator SHAFROTH. What is the reserve composed of now, do you remember?

Mr. REYNOLDS. It is composed of gold coin and gold certificates. We have no silver.

Senator SHAFROTH. In what proportion are those moneys?

Mr. REYNOLDS. I can not tell you offhand, but the majority portion of it is gold and gold certificates.

Senator SHAFROTH. Is much of it gold coin?

Mr. REYNOLDS. Well, yes; to a considerable extent. Perhaps I can make that a little more clear to you by saying that in Chicago, for the purposes of convenience between banks, we have a large deposit of gold in our clearing-house association. We have $21,000,000 at the present, so that our clearing-house debits, which are payable in gold, can be traded in in certificates for convenience, and at the same time leave the proper ownership of the gold with whichever bank it belongs to, as the result of our transactions, without having to cart gold through the streets. This is against our reserve of $160,000,000 of the national banks. We have one-fourth of that in gold coin there. In addition thereto, every national bank in Chicago will carry a large percentage of its reserve in gold certificates, and we will have some silver, and we will have some legal tenders, but not many; they do not circulate freely.

Senator SHAFROTH. Your principal objection to the bill is, however, you say, that it requires these United States notes issued under this act to be the legal reserve of the bank?

Mr. REYNOLDS. Yes.

Senator SHAFROTH. That is not required.

Mr. REYNOLDS. I so understood it.

Senator SHAFROTH. No; it says that the Secretary of the Treasury may do that.

Mr. REYNOLDS. I misunderstood. I thought it was required. I thought that would be enforced circulation.

Senator SHAFROTH. The object of this was this, that in the event that there were raids upon the Treasury outside of the legitimate demands for exports for foreign countres (which I think practically is the only legitimate demand upon the United States Treasury for gold), that in that event if there came a shortage for that purpose the Secretary of the Treasury may require these United States notes, legal tenders redeemable in gold, to be a part of the reserve, not all but a certain proportion of them, it giving him the discretion entirely; and that would force into the United States Treasury gold without any expense whatever to the Government.

Mr. REYNOLDS. It would not necessarily force it there; might it not force it any other place as well?

Senator SHAFROTH. It would put gold certificates or gold out in circulation, and a certain portion of it would unquestionably be paid in customs duties and internal-revenue duties and other taxes to the Government.

Mr. REYNOLDS. What I fear is that the adoption of that bill would result in your being unable to get hold of all these gold certificates. There is a great percentage of them out in the hands of the people. Banks do not control that. It is not a question of whether or not banks themselves would handle them, but the public.

Senator SHAFROTH. Of course it is possible that they might be, and yet we know now that quite a large quantity of gold certificates come into the Treasury. You can take the Treasury report at any time and find that a very large proportion of it is gold certificates.

Mr. REYNOLDS. I appreciate that.

Senator SHAFROTH. And the United States Government, owning and controlling the certificates, have got a right to draw the gold upon them and got a right to put that gold then to any use they deem proper, and if it makes gold reserve it becomes proper action.

Mr. REYNOLDS. They have the same right for those notes' redemption that I have or anybody else.

Senator SHAFROTH. The United States Government could not possess the power to compel you to send in those gold certificates; it is purely voluntary.

Mr. REYNOLDS. I think the whole discussion of your bill, Senator, resolves itself into a question of the discussion of money or currency rather than the discussion of banking.

Senator SHAFROTH. I think so, too.

Mr. REYNOLDS. We gentlemen who have appeared here before you appear more in the attitude of bankers than we do in the attitude of experts from the standpoint of currency or of money.

Senator SHAFROTH. Mr. Reynolds, I want to ask you, in your judgment, whether the national banks want to retire their 2 per cents?

Mr. REYNOLDS. I think they would.

Senator SHAFROTH. You think that they would come in and present to the Treasury for redemption, then, a good deal of their circulation gradually?

Mr. REYNOLDS. I think on any system of that kind that they could feel would be workable they would be only too glad to do it.

Senator SHAFROTH. So that if it were left voluntary, the question arose in my mind whether or not if the Secretary of the Treasury

would call for these notes—that is, should make a call for certain of these notes that perhaps are falling due——

Mr. REYNOLDS. You mean "bonds"?

Senator SHAFROTH. I mean bonds; yes. But I felt without an inducement to the bankers to cash their 2 per cent bonds it would not justify them in presenting them all at once. I believe it would take a series of years to substitute this currency, but I believe it would, when it was substituted, relieve the banks of a good deal of trouble.

Mr. REYNOLDS. As I said before, if you make it obligatory upon the banks to carry their legal reserve in money and coin in their vaults in gold, I do not see any reason in the world why your plan could not be worked out.

Senator SHAFROTH. Now, what would you think of the Secretary of the Treasury issuing an order—only in the event and in case there was plenty of gold they would rather for him to carry gold—if there is a raid made upon the Treasury, why could he not keep 25 per cent of his reserve in United States notes, and would not that very demand for that money on the part of the bank naturally gravitate toward the United States Treasury the gold coin?

Mr. WEXLER. I think that as soon as you promulgate that order gold would go to a premium the moment you gave notice that there was not sufficient gold for redemption of your notes; then that very moment gold would go to a premium just as it went to a premium in 1907 in New York, when we had to pay 4 per cent premium on gold.

Senator SHAFROTH. Oh, yes; you had an enormous amount issued, and they had been issued during war times, and the stability of the Government was then questioned—a good many reasons.

Mr. WEXLER. Senator, that can happen again. What has happened can happen; and, Senator, a Government note, however strong the Government may be, and however confident the public may be that the note will ultimately be paid, it is not as good as a bank note. Why? Because the holder of the note wants to know, not that the man is good and can ultimately pay, but that he can pay upon demand; that is the fundamental thing.

Senator REED. Have not banks utterly failed to do that a good many times in our history?

Mr. WEXLER. Not their notes—their deposits.

Senator REED. They not only failed to pay their notes, but they failed to pay us back our own money.

Mr. WEXLER. They never failed to pay their notes.

Senator REED. You failed to pay your notes when you failed to pay your obligations.

Mr. WEXLER. No, Senator; you are wrong.

Senator REED. We could not even get our own money back that the bank had, and I do not say that criticizing the banks. It seems to me that is a good deal worse than saying "We will not exchange this for gold."

Mr. WEXLER. We are asking you to give us machinery by which we can convert this bank credit which we were unable to put out at that time into another instrument of credit which we can pay out; that is all we are asking.

Senator REED. In other words, you want national clearing-house certificates; that is pretty nearly it—like you issued in 1907?

Mr. WEXLER. You might call it that, only in a simple form where it can be followed up in the ordinary course of business instead of in emergency, and thereby attracting the attention of the country and the whole world to your weakened condition at that time. Senator, if you require that—if the act should require that the national banks and State banks, if it could cover the latter, which would be advisable, but the law would not reach them—their reserves should be carries in gold, then you are going to create a competition between the banks of the country and the Treasury Department for this reserve gold; if you do not provide that they shall carry their reserves in gold, then you are creating an unsound reserve for the banks, you are superimposing a reserve, based upon 50 per cent upon 100, which in itself is only an obligation and does not consist of an article of ultimate redemption. For instance, let me illustrate. Suppose to-day I had the note of the Standard Oil Co. indorsed by the Rothschilds and the Rockefellers. You can not conceive of the manufacture of a better note than that. It is absolutely good.

Senator REED. Not unless you had the note of the bank?

Senator SHAFROTH. Or the note of the Government.

Mr. WEXLER. I do not think the Government would be any better than the other. That would be like "gilding the lily"; it would be absolutely a good note. Do you think it right to count such a note as the reserve of the bank?

Senator SHAFROTH. Of course, you can not by law establish such a standard as that.

Mr. WEXLER. Would you, in your opinion, approve of the power of Congress to enact any kind of an arbitrary law that would make such a note the reserve of a national bank. Would you think that a note of the Rothschilds and Rockefeller sound reserve for a bank? I know you do not. If you do not then the note of a Government that is no better than that note is not a good reserve.

Senator SHAFROTH. Your objection in the first place, is that immediately if the Government should promulgate an order of that kind, gold would go to a premium?

Mr. WEXLER. Yes, sir.

Senator SHAFROTH. Because in effect it would be a denial of the ability to payment of gold for the note?

Mr. WEXLER. Yes.

Senator SHAFROTH. As a matter of fact, you know that notes are presented continually at the Bank of France and they refuse to pay out gold, and yet their paper does not go to a discount. They will say, "Very well, we will pay silver to you."

Mr. WEXLER. It does go to a discount.

Senator SHAFROTH. No; it does not go to a discount.

Mr. WEXLER. The Bank of France has paid higher rates for gold during the past eight months than it paid during the previous five years, consequently gold was at a premium—it was not the public, it was the Bank of France which had to pay a premium.

Senator SHAFROTH. Perhaps for a certain quantity of work or goods. You are assuming that that would go to a discount.

What would you do with this provision here, that the Secretary of the Treasury is authorized, for that purpose at least, namely, maintenance of the gold standard, and

for that purpose to purchase gold and exercise all of the powers granted to him by section two of the act of Congress entitled "An act to define and fix the standard of values, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," approved March fourteenth, nineteen hundred, * * *

Mr. WEXLER. Purchase gold with what?

Senator SHAFROTH. It could buy it at a premium, if necessary under that.

Mr. WEXLER. Buy it with what?

Senator SHAFROTH. It could issue bonds for it.

Mr. WEXLER. All right.

Senator SHAFROTH. It could take any of its surplus in the Treasury and do it.

Mr. WEXLER. It has already got that; it is using that.

Senator SHAFROTH. They have always got a workable surplus of $250,000,000.

Mr. WEXLER. They have used that and you still need more.

Senator SHAFROTH. You must remember that when the gold goes out something equivalent comes back.

Mr. WEXLER. All right.

Senator SHAFROTH. If the note comes back you can hold the note and say, "we can hold that," and consequently there is that much less notes to redeem; or you could issue it again in the course of trade and you could get its equivalent when you issued it.

Mr. WEXLER. We are presuming now, that you want to carry out and put into it a provision under which the Secretary of the Treasury is required to maintain the gold standard and to purchase gold in the open market and the argument which has just been used by Senator Reed that the Government should issue $100,000,000 of bonds and sell them in Europe and bring the gold over.

Senator SHAFROTH. The conditions with relation to those $346,000,000 are going on right now. We do not have any difficulty with it. We have $150,000,000 gold reserve there. They are not selling any bonds now. It is only when there is a foreign demand for gold that we have to resort to a measure of that kind, and even then it is questionable whether it is necessary. It is a question whether or not there was not a deficiency in the Treasury that required that, instead of the fact that gold could not be gotten in any other way. I believe that any little obstacle that would be thrown in the way, such as one-fourth of 1 per cent, something of that kind, would have a tendency to make people say, "I would prefer this other money," and therefore they would not make any run on the Treasury.

Mr. WEXLER. That would immediately put your gold to a premium or the other note to a discount.

Senator SHAFROTH. I do not think it would. That is just a suggestion. The proposition here is that the Treasurer is clothed with unlimited power to maintain this parity, just like he now maintains the parity between greenbacks and gold. Gold is not flowing out of the Treasury; it is flowing into the Treasury.

Mr. WEXLER. You can have all the power granted to you by law that you want, but when it comes to the exercise of that power the man you put the exercising of it upon has got something to say. Suppose that you had been required to sell $100,000,000 of bonds in the last six months for the purpose of bringing gold into this country. You could not have sold them in any civilized country in the world, except at a tremendous discount, because all of the commercial nations of the world were begging each other for gold. You are conceding all kinds of conditions under which this is going to work just like it was greased.

Senator SHAFROTH. The United States notes and greenbacks are working with perfect accord.

Mr. WEXLER. I have here, in my pocket, a $10 note, that was issued to the people, and which at the time it was issued was good for $10 and for a year after it was issued it was good for $10. It is a Confederate note. During the same period that this was good for $10 the greenback was not worth over 60 or 70 cents on the dollar, the first year or two they were in circulation, when the fortunes of the war were running against the North.

Senator SHAFROTH. Making the note worthless, of course, going to a discount.

Mr. WEXLER. This note became a depreciated note, and the greenback gradually went up; though it did not go back to par. It is fundamentally unsound for the Government to issue a circulating medium. You have got to go back, Senator, to the A, B, C of finance, I know.

Senator REED. Will you allow me to enter the primer class at this point?

Mr. WEXLER. Yes; that is exactly right.

Senator REED. You have seen fit to illustrate the badness of Government money by producing a $10 Confederate note, issued by the Government that never existed in the world.

Mr. WEXLER. It did exist.

Senator REED. It does illustrate that fact that there can be bad money issued by the Government. Do you think it is fair to use that as an illustration, any more fair than it would be if this committee would produce a $10 wildcat bank note, issued by banks, when they had laws passed to suit them and issued money? One would be just as fair as the other.

Mr. WEXLER. We have used that illustration here, Senator, that you can issue just as bad a bank note as you can a Government note, and we have used that illustration here to prevent you from issuing a bad bank note just in the same manner that I am using this Confederate note to illustrate the proposition of issuing a bad Government note.

Senator REED. It all comes down to the proposition that if we are are going to consider either system, we ought to consider the conditions as they now exist, governed in the future by rules that are dictated by common sense, good judgment, and experience in both instances.

Mr. WEXLER. Yes, sir.

Senator REED. Then, we parallel the two on the same plan; but if you are going to put up a Confederate note before this committee, illustrating what a Government note is, when, if they are not all gone

to the paper mill, I could get cord after cord of bad bank notes, so I do not think we should use that kind of argument. I do not think it is fair.

Mr. WEXLER. For 15 years after the United States Government note was issued, the greenback, it did not sell at par; it fluctuated from time to time.

Senator REED. We know that is true; we know that there are a multitude of reasons for that that would not necessarily exist now.

Mr. WEXLER. Not necessarily, but may. Not as long as 50 per cent was there.

Senator REED. If you can take that away from the Government, I simply want to know why you can not take it away from the banks.

Mr. WEXLER. We have been very frank in this discussion, and I want to say to you that it is possible for a body of men, equipped with a knowledge of this subject, to sit down and work out a sound Government note. I think it is possible; but it is not nearly as economic, not nearly as advantageous to the country; it is not as elastic a note; you have not as good machinery for protecting a gold reserve through a Government note as you would have through a bank note. Therefore, taking the experience of all the civilized commercial nations of the world as a guide, and—and we all form our opinions by experiences of ourselves and others—why should we permit our minds to run in a channel that is fraught with more danger, greater trouble, more cumbersome, not as efficient, when we have in our hands a means of creating a bank note and credit system that will absolutely answer our purposes; that will receive the approval of the banks, the merchants, the students of political economy, such as the professor here and every one else?

Senator REED. Mr. Wexler, of course, if I grant your premise, namely, that the bank notes are a better system, I have granted the whole question, for the premise involves the conclusion; but what I am trying to get at are the reasons for your conclusion, because I might not be willing, so far as I am concerned, to surrender my judgment to your conclusion, much as I respect it, or even to Prof. Sprague's conclusion.

Mr. WEXLER. Senator, can you suggest a single individual outside of the Halls of Congress and the Senate—I ask you, is there one in Europe or America—who believes that a Government note is better for the purposes of the people than a bank note?

Senator REED. A single individual?

Mr. WEXLER. Yes.

Senator REED. My dear friend, I would like to make a wager, if we could test it, that if you submitted it to a vote of the American people to-morrow, that 90 per cent of them would vote for the Government note.

Mr. SHAFROTH. 99 per cent.

Senator REED. And take it every time.

Mr. WEXLER. They might. But let us exclude the proletariat, which is not posted on the subject, and let us confine ourselves to people whose training has been in the direction of finance, and take the political economists of this country, of Europe—the bankers of this country and of Europe; the larger merchants, who are in a position to understand this subject, and the larger manufacturers,

and you will not find that sentiment. I have talked to any number of them.

Senator REED. Let us analyze that a minute.

Mr. WEXLER. Yes.

Senator REED. In the first place, let us exclude the banker, except that he can give a reason for the faith that is in him, because he is an interested party. We will exclude the proletariat, which, of course, excludes Congress, because they all belong in that class.

Mr. WEXLER. Not necessarily. You have bankers in Congress.

Senator REED. I do not know just who would be left, but we would have the merchants who have to get their credits from the banks and allow the banks to do a good deal of their financial thinking. I am not so sure that we have any right in this Republic to exclude this proletariat. I have never done it. We have got to make a system for them. I do not like to discuss it on that line. I would just like to discuss it along the lines of what the reasons are.

Mr. WEXLER. I would be glad to give them to you, Senator.

Senator REED. The reason I am arguing with you is that I do not propose to accept your conclusion. I want you to give me the reason. Your conclusion, however, would have due weight, as a conclusion.

Senator SHAFROTH. Let me ask you this: Is it not a fact that the first United States notes issued by the Government maintained their parity with gold from the beginning to the end, because they were full legal tender for the payment of all debts, dues, and receipts coming to the Government? Were not $90,000,000 of those issued, and then did not they change the United States note so as to make it a full legal tender, except as to import duties and the payment of interest on the public debt, and then the United States notes went to a discount?

Mr. WEXLER. Senator, you are correct, I believe. I have not those facts before me, but I think that statement is correct. I have not said at any time, nor do I say now, that it is not possible to work out a feasible Government note, Treasury note; it can be done, but it has to embrace many other thoughts than those that are in this bill.

Senator SHAFROTH. Give us those facts; we want to put them in the record.

Mr. WEXLER. In the first place, it should provide that the reserves to be carried by all banks be gold, and the power should not be given to the Secretary of the Treasury to provide any other money as temporary or permanent reserve.

Senator SHAFROTH. Now, why?

Mr. WEXLER. Why should it?

Senator SHAFROTH. Yes.

Mr. WEXLER. Because gold is the money of ultimate redemption, and because a note, however good, is not reserve money.

Senator SHAFROTH. United States notes now are kept as part of reserves, are they not?

Mr. WEXLER. Yes; and we have contended for many years that the United States note ought to be retired and paid off.

Senator SHAFROTH. That is begging the whole question.

Mr. WEXLER. It is not begging the question at all. It is accepted because the Government permits us to accept it. If we had our

own volition in the matter, we would say that the Government ought to say that this note ought not to count as reserve. I say it is fundamentally unsound that the note should count as reserve.

Senator REED. For the reason that it is a note, and not an item of redemption?

Mr. WEXLER. Nothing but the obligation of the Government, with 43 per cent gold behind it, however good it might be.

Senator REED. You say you do not approve of this present system, and that we ought to have gold in the banks as reserves and not Government notes?

Mr. WEXLER. I think you ought to have gold in the banks as reserve.

Senator REED. You say the banks want that?

Mr. WEXLER. I am not expressing the opinion of other banks. My own opinion is that our reserves would be sounder if they consisted entirely of gold than if they consisted of a note of a Government or anyone else, however good it may be.

Senator REED. Let us concede the soundness. I am asking you about the question which I think is suggested by your answer, that the banks have all along criticized the present system because it does not require gold reserve. Is that the case, that the banks have criticized this system because it does not require gold?

Mr. WEXLER. You are not stating my proposition.

Senator REED. I so understood you.

Mr. WEXLER. I say the banks—and I believe I am correct in so stating—do not believe the greenbacks are not a proper subject of reserve money. Let us put it that way.

Senator REED. The banks want what is proper?

Mr. WEXLER. Yes.

Senator REED. Therefore, the banks want it made gold.

Mr. WEXLER. Gold.

Senator REED. Therefore, I take it the banks could change their reserves and pay gold without injury to the banks or else they would not want it?

Mr. WEXLER. Yes; they could.

Senator REED. That is what I wanted to clear up and get your opinion on. Why do you not do it? What is to hinder you?

Mr. WEXLER. There is not anything.

Senator REED. It is going to make you better; it is going to make you stronger; and the gold comes into your vaults, and you could lay it aside. Why do you not do it if it is better?

Mr. WEXLER. We do it, as a matter of fact. Whenever we get hold of a gold note, we keep it and put out a greenback. That is the practice in our bank, and I believe it is in all other banks.

Senator REED. Do you get hold of them enough to amount to 25 per cent?

Mr. WEXLER. The greenback is in small denominations, and it naturally goes out in order to serve the purposes of trade.

Senator REED. Do you get enough gold certificates so that you could lay aside 25 per cent?

Mr. WEXLER. Yes.

Senator REED. Could all the banks do that?

Mr. WEXLER. They all could if they had a banking system, a central reservoir of credit, through which it could compel these gold

notes to remain in its own vaults instead of the pockets of the people who supply circulating medium in lieu of it.

Senator REED. If it could compel these gold notes to remain in its own vaults instead of in the pockets of the people, of course, it could do it.

Mr. WEXLER. Exactly.

Senator REED. But what is the system that would enable us to do it?

Mr. WEXLER. That is the weakness in our system to-day, that we can not keep the proper reserve money in our vaults, because we have nothing to substitute for it, and have to pay it out.

Senator REED. Mr. Wexler, what is the system by which we could compel it to come there and stay there?

Mr. WEXLER. The system is this, to give us another note, a bank note, that we can give to the public, so that we can keep these notes and not have to pay them out.

Senator REED. Suppose the public prefers a legal tender or the gold they have, what are you going to do about it?

Mr. WEXLER. I have absolutely no objection, and Senator——

Senator REED. What would you do?

Mr. WEXLER. If the public all wanted it?

Senator REED. Not all of them.

Mr. WEXLER. You just simply would not have any facilities for credit at all; if the public took all the gold in all of the banks and carried it around in their pockets and safes and till drawers, you would have no facilities for credit.

Senator REED. Suppose it went down below 25 per cent?

Mr. WEXLER. If it went down below 25 per cent and we have no means of protecting our credit, our credit would be restricted just to the extent it falls below 25 per cent.

Senator REED. Does it not seem that you have just gone right around and came out the same hole that you went in, on that statement?

Mr. WEXLER. I did not.

Senator REED. You first say that the proper thing is to have 25 per cent of gold?

Mr. WEXLER. Yes, sir.

Senator REED. You say you could have that under a proper system?

Mr. WEXLER. Yes, sir.

Senator REED. I asked you what the proper system was, and you say a system by which you can issue credit money.

Mr. WEXLER. Yes, sir.

Senator REED. And then I asked you, suppose that the people preferred the gold?

Mr. WEXLER. Yes, sir.

Senator REED. You then say we can not do it?

Mr. WEXLER. Exactly.

Senator REED. That is just the inherent weakness of every one of these systems, is it not?

Mr. WEXLER. No.

Senator REED. Is the fact that here is one money better than another and it is limited in amount, and when you get into trouble the people all want the best money?

Mr. WEXLER. No, sir; that has not been the experience of any country in the world, and it will not be our experience here. Our clearing-house certificates, on the other hand, furnish a basis of credit; people take them. They were illegal, but used in the panic of 1907.

Senator REED. The people did not take them because of choice.

Mr. WEXLER. No.

Senator REED. They took them like a man yields a pocketbook to a highwayman at the point of a pistol.

Mr. FORGAN. That is very unfair; that is the most unfair statement I have heard you make.

Senator REED. I did not say it unpleasantly.

Mr. FORGAN. You did not say it unpleasantly, nor almost any statement that you have made.

Senator REED. They charge me with that all the time.

Mr. FORGAN. The banks were acting under compulsion of the laws created by Congress.

Senator REED. I am not criticizing the banks, but I am dealing solely with the question of why the people took them. They took them because they could not do anything else, and the banks gave them because they could not give anything else, and I have always said—that you will not think I am talking unpleasantly—that the banks did a very wise thing and a very proper thing when they issued those clearing-house certificates, although it was in the teeth of the law; but I am not dealing with that phase of the thought, I am dealing with the remark of Mr. Wexler that the clearing-house certificates were accepted by the people.

Mr. WEXLER. Yes.

Senator REED. We all know why they were accepted. We had to pay our grocery bills and we did not have anything else to pay them with.

Mr. WEXLER. And they answered the purpose.

Senator REED. And as far as I was concerned I was glad to take anything and glad to see the banks get through and open their doors in a short time and go to paying out any kind of money.

Mr. WEXLER. Senator, let us see if we can not get this thought directly in the minds of the committee: It is recognized that the gold is the standard of ultimate redemption and the yardstick of measurement for the whole world. It is recognized that that is the best money.

Senator REED. Yes.

Mr. WEXLER. And it is the basis of credit.

Senator REED. Yes.

Mr. WEXLER. If it is the basis of credit, then credit can exist only so far as that gold rests in a certain mass in a certain place, sustaining that credit.

Senator REED. Is that correct?

Mr. WEXLER. Yes, sir.

Senator REED. If by the establishment of a bank we can issue a circulating medium that will protect that gold stock instead of forcing us to pay it out to the people who have absolutely no use for it, then we accomplish the one great forward step toward the accomplishment of a great system credit in currency that will answer our purpose.

Mr. WEXLER. I had a telegram from our bank this week stating that the demand for currency was very great, and that they had had to order $500,000 in currency from New York, Chicago, and St. Louis. What was the effect of that operation? We first had to ship out of our own vaults $500,000 of reserve money. For what purpose? To pay the cotton pickers and the cane harvesters and the rice harvesters of the South, who would have been equally as well satisfied and whose interests would have been equally safeguarded if we had sent them an instrument of credit—a bank note—and kept that gold there as a basis of credit. What did we do next? In order to replenish our reserve we had to wire Mr. Forgan's bank and Mr. Reynolds's bank and our three correspondents in New York, to take out of their reserve that $500,000 of gold to replenish the reserve. We thereby diminished temporarily our own lending facilities to the extent of that $500,000—four times that on the basis of 25 per cent reserve; and subsequently we restored our credit facilities and attacked theirs to the same extent.

That is the most uneconomic and expensive proposition for the people of this country that could possibly take place.

Senator REED. You are getting away from the point we are talking about.

Mr. WEXLER. I am trying to illustrate, Senator, just as clearly as possible the reason why we must have a bank note instead of reserve money of any character to circulate among the people.

Senator REED. What is back of your bank note?

Mr. WEXLER. In the first place, there is the capital of the bank which must be lost and exhausted before the note comes impaired; second, we have a gold reserve, as we have provided here, of 40 per cent; that is 40 cents on the dollar of every note outstanding will be there in gold. Then, 100 cents on the dollar of every note outstanding will be there in a short time, liquid commercial obligation, resting upon an actual transaction. What does an actual transaction mean?

Senator REED. I know what you mean. You need not go into the details. You mean somebody has got some goods there in a store that he is going to sell you, and he gives you his note, and he takes that note and he pays his bill with it, etc.

Mr. WEXLER. Exactly; when he sells his goods, he pays us, and that is the process.

Senator REED. Yes.

Mr. WEXLER. These notes that I refer to maturing in 90 days, are coming every day, as they mature, and part of the notes that we have issued, when we have discounted them, must be brought in to pay the note.

Senator REED. Yes.

Mr. WEXLER. That is going on all the time. There is no other way to get these notes out except by extending them from the book credit that has been created by discount of a note or by somebody bringing me in a whole lot of bullion and saying, "We do not want to be bothered with that; give me notes." That takes place frequently as well, at least, in the Treasury. So you have a note protected by 40 cents on the dollar gold, and a note arising from commercial transactions at 90 days, and you have a margin of safety against possible

loss of the capital of the bank. If you believe that note to be good—that is the only proposition in your mind—is it good? Whether a Government note is better or not does not make any difference; you do not want anything better than what is absolutely good. If that is good and the Government has saved the expense and the responsibility of maintaining that gold reserve, the cumbersome details of redemption, and these notes will come in, I do not think they will circulate more than five days, as in Canada. I can not see the necessity of going beyond using your brains and experience in creating a system based upon that theory.

Senator REED. I was asking you some questions and had a point in mind, and you have got me so far away from that territory that I have entirely forgotten what the point was.

Senator HITCHCOCK. While thinking of that, if you will allow me to ask Mr. Wexler some questions. Suppose yesterday, instead of telegraphing these banks for money, your officers had gone across the street to the Subtreasury of the United States, and presented proper and sufficient security, and obtained $500,000 in Treasury notes, upon which you would be charged while you had them outstanding, say 4 per cent interest.

Mr. WEXLER. That would be securing credit. I did not need credit; I needed currency. At that time we did not need any credit. We had money in New York. I needed circulating medium instead of credit. I had the money to my credit in New York. New York might have had to do that when I attacked its reserve.

Senator HITCHCOCK. What need would there have been for you to carry these great balances in New York, and what need would there be for you to be dependent on New York for meeting this extraordinary demand, if it is possible for you to go across the street to the Subtreasury and secure the additional currency in the shape of United States notes?

Mr. WEXLER. I will explain that to you. Of course, under the present law, as you know, we are required to keep our reserve in New York, Chicago, and St. Louis—one-half of it, where we do now keep it; but the trend of our business makes almost every dollar of our money ultimately go to New York and Chicago. Principally to New York. For instance, the cities of Houston and Galveston sell us $200,000 or $300,000 worth of foreign exchange daily in the cotton-moving seasons. We give the Houston bank credit for it in New Orleans, and supply that currency. What do we do with that foreign exchange after we get it? We send it to England, if it is drawn on London, and take credit in London. The money we have paid out to Houston or Galveston has been transferred to London, and is to our credit in a London bank. I have got to get it back from London in order to buy more exchange, have I not? How am I going to get it back from London?

There are two ways: I may telegraph to get gold. That takes too long and is too expensive; so I draw my check on that London bank, payable at sight, and I sell that check in the only large market in the country where foreign exchange can be sold, and that is New York. So I sell it to another banking house in New York, and I get credit for the proceeds of it in my bank in New York. I have now got the money back in this country, in New York. I have got to get it back

to New Orleans, and I get it back by this very process that I have just referred to, by having New York ship me the money by express or depositing it in the subtreasury at New York and transferring it through the subtreasury at New Orleans to me, which bookkeeping entry costs me 75 cents per $1,000, or $375 on $500,000. That is the present expensive, cumbersome method of doing that business. I can not prevent my money going to New York. If I could sell over my counter New York or London exchange for cash, by reason of our merchants importing foreign merchandise, I would not need then that New York operation; but we have not in other parts of the country this demand for foreign exchange as it exists in the city of New York. Therefore, no matter what regulation you may make with regard to the depositing of our reserves, a certain amount of my money will go anyhow to New York, and I will have New York depositing in my favor in the regional bank in New York—that will be the process under the new plan—and the regional bank will transmit it to me through the regional bank at New Orleans free. That will be the improvement through the operation of this new bill.

Senator HITCHCOCK. You see no objections to dealing with the subtreasury at New Orleans in this instance, except the trade conditions making it necessary for you to keep certain money in New York?

Mr. WEXLER. It goes there; I can not keep it from it.

Senator HITCHCOCK. But, as a matter of fact, that is the only objection you can see to a plan under which you could secure additional currency direct, when you want it, from the subtreasury on the deposit of security?

Mr. WEXLER. I could only get it on the deposit of security.

Senator HITCHCOCK. Yes.

Mr. WEXLER. But suppose I did not need the credit?

Senator HITCHCOCK. That is the only way under this bill or under the bill you propose that a bank can secure money, except by drawing on its own funds.

Mr. WEXLER. It has the money. I did not need credit. What I need is something the people can use to pay off. They want to exchange book credit they have with us for some notes. I tell them I have not got the notes.

Senator HITCHCOCK. That is a credit just as much as this is that you get from the Subtreasury.

Mr. WEXLER. I can not take that book credit off the books and take it over to the Subtreasury. This man has credit. I have got to give him my gold-reserve money to go out and spend among these darkies for cotton picking when they do not want it. Why not give them something that answers the purpose just as well and leaves me with this reserve upon which I can continue to facilitate commerce to the extent of that $500,000 that you take away from me to go out in the country? I have contracted by credit facilities $200,000,000.

Senator HITCHCOCK. Under my plan you would not, because you would still have that reserve in the bank. You would simply take some of your portfolio and deposit it with the Government and get the additional currency.

Mr. FORGAN. He does not want to be at that expense.

Senator HITCHCOCK. He has just objected to the fact that he has been compelled to contract his reserve and thereby contract the money-lending power.

Mr. WEXLER. I have got the money in New York, my own money; all I want is to draw it.

Senator HITCHCOCK. You have contracted your reserve by sending some of your ready cash into the country.

Mr. WEXLER. I see your point.

Senator HITCHCOCK. By the plan you propose you would not contract your reserve at all.

Mr. WEXLER. The truth of the matter is, when I draw the $500,000 out of New York I restore my reserve, and I do not need any credit. New York would be the one then which needed the credit.

Senator HITCHCOCK. You contract the reserve of New York.

Mr. WEXLER. I contract the reserve of New York. I only contracted my own credit for a day, until I could get mine from New York. New York is in that condition.

Senator HITCHCOCK. Is not that a part of the evil the country is suffering from, the fact that 20,000 banks have got the power to contract the reserves in New York at any time, and that to produce a stringency, and would it not be better if the banks were not compelled to draw upon New York under those circumstances?

Mr. WEXLER. That would not be the remedy. The remedy would be to give New York somewhere to go and restore its reserves, when it becomes attacked; that is the remedy.

Senator SHAFROTH. Do I understand if this bill goes through in its present form that you would rather for us to require all the banks to keep their reserves in bonds?

Mr. WEXLER. No, Senator. I would want all the banks——

Senator SHAFROTH. You think that the gold reserve, however, is the ideal reserve for banks?

Mr. WEXLER. I do.

Senator SHAFROTH. And you would also want us to require the banks to keep their reserves in gold?

Mr. WEXLER. It would almost have that effect—I would want them to keep that part of their reserve which they keep in their vaults in gold or its equivalent, which, under present Treasury regulations, includes silver notes; and the reserves of the regional reserve bank or any other reserve agents also would be required to keep it in gold.

Senator SHAFROTH. Would you want us to limit your reserves to gold, right now, in this bill?

Mr. WEXLER. At this moment?

Senator SHAFROTH. Not my bill, but in the bill?

Mr. WEXLER. I would not.

Senator SHAFROTH. If my bill took effect, you want that limited to gold?

Mr. WEXLER. Yes, I would; because you are going to have only 50 per cent redemption feature in it.

Senator SHAFROTH. These reserve notes that you have been issuing have not got but 33⅓, and we only recommend 40.

Mr. WEXLER. We do not propose to count them as reserves.

Senator SHAFROTH. The greenback has got a reserve of only 43 per cent, and you count that reserve.

Mr. WEXLER. We count that reserve.

Senator SHAFROTH. The silver in the silver dollar is worth 45 cents, and you count that as a reserve.

Mr. WEXLER. That is part of the money we know the people are going to carry. You have somewhat confused lawful money and reserve. I say I see no objection to making these bank notes lawful money. If you sell me some real estate for $10,000 I see no reason why you should not be compelled to take these notes in payment. You might make the transaction, and say, "I will sell you this property for this much money, but I want gold." I could take you over to the bank with the $10,000 and get you the gold. So, they can be made lawful money without any harm, but do not permit a note, however good, to be bank reserve.

Senator SHAFROTH. Not even the greenback now?

Mr. WEXLER. Not even the greenback now. The greenback ought to go out of business.

Senator SHAFROTH. Do you think silver ought to go out of business?

Mr. WEXLER. Silver ought to be a subsidiary coin. If you have this bank note your silver certificates would not be necessary at all. This bank note can supply the place of the silver certificate and of the greenback, and then you have nothing but gold, the ultimate money of redemption, and that would be ideal.

Senator HITCHCOCK. Do not all banks of Europe except the central bank count notes reserve?

Mr. WEXLER. Notes of the Bank of England, and such notes as that?

Senator HITCHCOCK. Yes.

Mr. WEXLER. They have no reserve requirements.

Senator HITCHCOCK. Whatever reserve they have is more in notes than in gold.

Mr. WEXLER. Of late, the banks of England have built up quite a large gold reserve; it has been increased from 3 to 10 per cent, realizing they were skating on thin ice by depending entirely upon the gold reserve of the Bank of England for their reserve.

Senator HITCHCOCK. They take in England notes of the Bank of England in gold just as in France they take notes of the Bank of France in gold.

Mr. WEXLER. They take them over to the Bank of England and get credit for them.

Senator HITCHCOCK. You object to something in this bill which, as a matter of fact, is used on the other side.

Mr. WEXLER. No; it is not used on the other side. They have no mandatory reserve provision. Now, if you wipe out of here entirely the mandatory gold provision, we will carry the class of reserves which our business requires, and which we believe to be safe. You do not need all this provision with regard to reserve as Senator Nelson wisely said.

Senator HITHCOCK. Is it best to require banks to carry their reserves all in gold?

Mr. WEXLER. If they carry any.

The CHAIRMAN. The committee will stand adjourned until half past 2——

Senator BRISTOW. Mr. Chairman, I have been waiting several days to ask some of these gentlemen some questions.

Mr. REYNOLDS. Mr. Wexler, who is going to remain here, can answer these questions as well or better than any of the rest of us,

and Mr. Forgan and myself have postponed our departure for three consecutive days, and I feel I ought to get away.

Mr. FORGAN. Mr. Wexler will be here Monday.

Senator BRISTOW. Can you gentlemen come back later?

Mr. REYNOLDS. Yes; we will come back later. There are several lines of inquiry I want to make, and I have not had the slightest opportunity, and I want the opportunity to do it.

The CHAIRMAN. We will not postpone these hearings in that way.

Senator BRISTOW. Let us have the committee decide whether or not we will do that.

The CHAIRMAN. It will be decided by the committee, but we will not postpone our hearing. We will be compelled to ask you gentlemen to remain to give the Senator from Kansas (Mr. Bristow) an opportunity to cross-examine you.

Mr. REYNOLDS. Is there any appeal from the decision of the chairman?

The CHAIRMAN. Yes; to the committee and to the Senate itself.

(Thereupon, at 1.25 p. m., the committee adjourned to meet at 2.30 p. m.)

AFTER RECESS.

The CHAIRMAN. The committee will come to order.

Mr. Wexler, Senator Bristow, of Kansas, wanted to ask you some questions.

Senator BRISTOW. Mr. Chairman, I of course would be very glad to get the views of Mr. Wexler on a few matters that I wanted to bring up, and I should also be glad to have the opportunity, if it can be had, of interrogating Mr. Reynolds and Mr. Forgan upon the same matters.

Mr. WEXLER. Mr. Chairman, Mr. Reynolds and Mr. Forgan asked me to state that they were compelled to return, and that they would be very glad to answer any questions that any member of the committee wanted to put to them, by wire or by letter, or to return at any time that the committee desires them to.

Senator BRISTOW. Interrogatories by wire or by letter could not be satisfactory in matters of this kind, in my judgment. I simply want to state that I wished an opportunity to interrogate Mr. Reynolds or Mr. Forgan upon a general line of inquiry such as I expected to this morning if the time had not been all taken up with other matters.

I simply wanted to explain that, Mr. Chairman, because a good many of the questions that I wanted to ask were brought out by statements made by Mr. Reynolds.

I asked Mr. Wade, I think it was, that if it were determined that a general revision of the currency law could not be made at this session, what changes he would suggest in the present Vreeland-Aldrich bill in order to make it serve the purpose of giving elasticity to currency. I will ask you the same question, Mr. Wexler.

Mr. WEXLER. Senator, I have not read the Aldrich-Vreeland bill over since it was made a law, but my recollection of the bill was that it was enacted at that time because the party in power then realized they could not get out a currency measure, and they thought that

something of that kind ought to be passed or they might not be very much blamed, and they brought out this Aldrich-Vreeland bill and printed all this circulation. This circulation required that it be secured by a certain class of collateral and that it pay interest at the rate of 5 per cent for certain papers and 6 and 7 per cent for others, and it goes on up to a prohibitive rate.

Just to take the currency as it is and make it answer the purpose, is your question, is it not?

Senator NELSON. It provided first for the formation of a currency association.

Mr. WEXLER. Yes; it contained first the provision that before a bank could get any money it would have to go before this currency association and expose its condition. It should have the right to go there to the proper authority stipulated in the bill and obtain these notes by depositing the classes of security which the Government requires. If the security is of the character that the bank could not comply with, then it would have to be amended so as to enable the banks to take out this circulation. Then the rate of interest would have to be materially reduced because it would only be used in an extreme emergency. It is a fact that any bill that provides only the means of relief in emergency is a bad bill, because it attracts the attention of the whole country and the whole world to your condition, and that accentuates it. In order to have it really effective, you must be able to put it into force all the time, without any jar or any friction, so as to call the attention of nobody to the condition. We have such a large population and have so many banks, and fear spreads so rapidly, that everything possible should be done to avoid exposing any condition requiring assistance, and the assistance should be made so readily available that if the security is sound it can be had upon very short notice without any complicated red tape which is incident to most Government transactions.

Senator BRISTOW. As I understand you, then, if provision were made whereby the bank could go direct to the source without incurring any publicity, and the interest rate were reduced, it would provide a currency that could be used for emergencies?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. Satisfactorily?

Mr. WEXLER. Well, not ideal by any means, but workable.

Senator BRISTOW. That would be a currency, then, based upon assets for temporary use?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. To relieve a stringency?

Mr. WEXLER. Yes, sir; it would be a loan. It would have to have a fixed maturity; otherwise it would have to have a gold reserve behind it. If you simply issued it without any fixed maturity or without any reserve, it would not no; it would be a disastrous inflation.

Senator BRISTOW. Yes; I understand. It would be in the nature of a loan.

Senator HITCHCOCK. As I understand, the principal complaint against the present currency system is its inelasticity. What you want is a currency that is more elastic, that will contract and expand with more ease and greater facility?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. Such a currency as you have suggested would relieve the weakness of our present system, would it not?

Mr. WEXLER. Such a currency as the Aldrich-Vreeland bill, you mean?

Senator BRISTOW. Modified as you suggested.

Mr. WEXLER. No, sir; I do not think it would.

Senator BRISTOW. What is the difference between that currency and the currency that you propose on these assets?

Mr. WEXLER. The difference is this, that the currency that I propose to be issued by the bank would, in the first place, be secured by a gold reserve. In the second place, it would be put out only for the rediscounting of paper, not for loans direct to a bank. The bank would have to have a particular class of paper.

Senator BRISTOW. If you will excuse me just a moment right there. That goes to the stability of the currency that is in existence. You spoke of a gold reserve. Now, there is no complaint as to the stability of the currency which we have now, as I understand it; it is good enough.

Mr. WEXLER. It is good.

Senator BRISTOW. This currency which you suggest would be no better currency than what we already have; but what you want is not a better currency, but a currency that is more elastic in its use?

Mr. WEXLER. Yes, sir; one the quantity of which in circulation adapts itself exactly to the requirements of commerce, and which is so organized that no power is strong enough to keep it in circulation one minute longer than the trade requires.

Senator BRISTOW. That is the point. That is, you want to give it elasticity. This currency which would be issued under the Vreeland-Aldrich Act, as you suggest, would meet that requirement, would it not? Would it not give elasticity?

Mr. WEXLER. Not at all.

Senator BRISTOW. Why would it not?

Mr. WEXLER. Because it is not, from my standpoint, currency at all.

Senator NELSON. It is a bond-secured currency.

Mr. WEXLER. It is nothing but a bond or note secured loan, at a rate of interest sufficiently high to make it unprofitable for the bank to keep it any longer than is absolutely necessary. It is not a currency.

Senator BRISTOW. I understood you to say that you wanted a currency that would only be in existence—afloat, if I may use that term—so long as it would be of use. It would be automatically retired——

Mr. WEXLER. I do not mean actually needed by the banks, but by the people of the country. We are merely the instruments of disseminating credit. We are dealers in credit. But I mean a currency that will meet the requirements of the whole people, that no bank, however powerful, no aggregation of banks, however powerful, can keep one minute longer than the commerce of the country requires it. It must have that inherent quality in itself to contract itself.

Senator REED. How do you get that inherent quality?

Mr. WEXLER. You get that inherent quality by the fact that when the condition that caused the emission of that note passes by, the note itself comes in of its own accord.

The CHAIRMAN. What you mean is that the cotton pickers, when they demand money for picking cotton, will put those notes back into the merchant's till in exchange for their merchandise, and then the merchant will retire it?

Mr. WEXLER. Certainly.

Senator REED. Suppose you have some issue done by the Treasury Department, done at the Government Printing Office instead of a private printing office, and it came back in here, would you not retire it in the same way?

Mr. WEXLER. No, sir; you have no means for retiring it.

Senator REED. You have the same means exactly that you have in the other. Here is a note that comes out of this corner of the room and here is one that comes out of that corner of the room. Your business is to retire either one of them. You retire them because they come into your bank through the trade and commerce. The same streams run through on the same level and in obedience to the same law.

Mr. WEXLER. There is no doubt in the world, and there can be no argument, but what the Government is in a position to establish a bank it if wants to do it that will be a central bank in effect, and it ought to have the same kind of machinery for emission and retirement of credit notes and the same method of lending money. It is just a question of whether you want to put the Government in that line of business or leave it to the banks. You have the power to do it.

Senator REED. You get away from the question by dissertation.

Mr. WEXLER. No, I think not.

Senator REED. I am dealing with one thing, just one thing. You said a moment ago, as I understood you, that you could issue the money through the banks, and it went out in response to the demands of commerce. Then it came back in, and you could retire it, and you considered that as an advantage of the bank issue over the Government issue. Now suppose that the bank goes to the Government and gets the same amount of money. It pays it out over its counter in the same way and for the same purpose, and when the cotton planter has harvested his crop and got his money he comes and puts it into the same till in your bank and it goes to the same man. Why are not the two systems, as far as that is concerned, parallel?

Mr. WEXLER. I have told you it can be done; if you provide the machinery for doing it, you can do it.

Senator REED. All the machinery that is to be provided is the method by which you get the money from the Government and the method by which you pay the Government off.

Mr. WEXLER. Exactly; and that must be by the establishment of various branches all over the United States, wherever that may be necessary—not to have to run up to Washington to do it.

Senator REED. I understand that.

Mr. WEXLER. If you give them the same machinery for passing upon credit, for issuing notes, for retiring notes, the same availability to the general commerce of the country, there is nothing to prevent the Government doing it, if it wants to go into that line of business. There is nothing to prevent the Government going into any line of business, if it wants to.

Senator BRISTOW. As I understand the method that you gentlemen have suggested, it is that when the bank needs currency, because of

some pressing condition with a branch bank, or with a central bank system, or a regional bank system, that bank goes to the regional bank or the central bank and gets the currency by hypothecating some of its notes or its assets—commercial paper?

Mr. WEXLER. When it gets credit it goes to the bank and hypothecates some of its commercial paper, and gets credit. That is entirely distinguished from when it needs circulation. Do you catch me up to that point?

Senator BRISTOW. Yes. Well, we will take credit.

Mr. WEXLER. We get credit.

Senator BRISTOW. What is the nature of this credit which you get?

Mr. WEXLER. I will give it to you. We have loaned all the money we are permitted to loan under the law, by reason of the fact that our reserves do not admit of any further loans. Now, we need credit, and we go to the bank with our portfolio and we rediscount it. It gives us credit on its books for the note, the amount coming to us from this rediscount. We have restored our reserve by reason of the fact that we have a credit—the regional bank.

Senator BRISTOW. Your reserve had not been disturbed, because you can not disturb it. You simply go to get money.

Mr. WEXLER. We have a surplus reserve.

Senator BRISTOW. This credit is in the form of bank notes?

Mr. WEXLER. It is in the form of the credit of that bank.

Senator BRISTOW. What good does that do in paying your cotton pickers?

Mr. WEXLER. I have got a credit in the bank either to check against or to send out to the cotton pickers. I go over to the bank, present my check, and they pay me out in the notes of the bank, just the same as my check calls for. Therefore I have done both things for which the bank is organized—I have used my credit and I have used the circulating medium. I have these notes and respond to the requests that are made upon me by my corresponding banks or by customers all over the surrounding country, and I ship these to-day by express or mail, as the case may be, or pay them over my counter.

Senator BRISTOW. You say you get credit that was in the form of bank notes?

Mr. WEXLER. Ultimately. It was not originally. It was in any form I wanted it in.

Senator BRISTOW. Are the book credits of any account to the cotton pickers?

Mr. WEXLER. Not to the cotton pickers, but they were to me. I might have to use part of them for cotton pickers.

Senator BRISTOW. It was of use to you because you could get notes for it?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. You are short on currency in your bank; you ought to have the circulating medium. You have to get it in order to supply the demand, and you take a part of your surplus to the branch bank of any kind, to a regional bank, or whatever you want to call it, and that bank has authority, under the law, to issue notes; and it issues the notes and gives them to you, and you leave with it your securities?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. As a guaranty for the payment of these notes, which ultimately is returned?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. And that relieves the stringency; and that is what you call elasticity, is it not?

Mr. WEXLER. You are confounding the propositions, Senator, with——

Senator BRISTOW. No; I do not think I am. Is not that what gives elasticity—your ability to get those notes to pay the cotton pickers?

Mr. WEXLER. That does not give the elasticity. The ability to get the notes saves me from paying my reserve. It would destroy my lending ability.

The CHAIRMAN. We will take a short recess for the purpose of a roll call.

(At this point the committee thereupon took a recess for five minutes at the conclusion of which the following proceedings were held:)

Senator BRISTOW. Mr. Wexler, I was suggesting, as I remember, when the roll call occurred, that this currency which you secured from the bank in an emergency was that which was necessary in order to make our present system more elastic?

Mr. WEXLER. That is entirely wrong, Senator. I have not taken that money out in an emergency. Let me see if I can get the idea straight to you. I might have a requirement for currency without the slightest requirement for credit. In other words, I might have to my credit in the regional bank, on deposit with the regional bank, a million dollars. That is, on their books our bank would stand in credit $1,000,000. But I do not want any more credit; I have got enough. I need notes to send out into the country, so I simply go over there, draw my check against my deposit and get the notes, you understand, and send those notes out into the country.

Senator BRISTOW. Why can you not do that now?

Mr. WEXLER. Because the notes that I send out now—I do do that now. If I get a demand, now, for currency, I go into my vault and take reserve money out.

Senator BRISTOW. If you have this million dollars credit, why do you not check against it?

Mr. WEXLER. They can not pick cotton on checks. I have to send the money.

Senator BRISTOW. The trouble is, Mr. Wexler, that instead of my confusing this matter, if you will pardon the expression, I think you are confusing it.

Mr. WEXLER. Well, perhaps I am, Senator.

Senator BRISTOW. You say that you do not need credit because you have credit; what you want is currency?

Mr. WEXLER. Yes.

Senator BRISTOW. And having credit on a reserve bank, you draw your check on that bank and ask for currency. That bank sends it to you. That is what you do now?

Mr. WEXLER. That is what I do now.

Senator BRISTOW. If you can do that now, then wherein should there be an embarrassment because of the inelasticity of the currency?

Mr. WEXLER. I am glad you asked that. The withdrawal of that money by my check on my correspondent has taken that much of his reserve money away and reduced——

Senator BRISTOW. How has it taken that much of his money?

Mr. WEXLER. It is his reserve. This gold that he is sending out, or its equivalent——

Senator BRISTOW. I am not discussing the proposition from the standpoint of breaking into your reserve. This is not a reserve question. It is a question of elasticity. Now, if you want a less reserve or no reserve, that is a different question. Suppose you do not have any reserve.

Mr. WEXLER. Let us get around to the elasticity, then. The notes that you now circulate have no elasticity. Our bank notes are based upon bonds, and when they come back to us we give them out just as soon as we can, because when we have them on our hands they do not count as reserves, so we try to get the people to take them. There is no means of their retirement except by taking them down to Washington and selling your bonds.

Senator BRISTOW. That does not answer the proposition.

Mr. WEXLER. So that the present note issue is inelastic.

Senator BRISTOW. It is stationary; that is true.

Mr. WEXLER. The new note that we propose to have issued will be a note that will go out when it is sent; it will be redeposited in a bank. When it gets back to whatever bank it may get to, that bank will redeposit it with the regional bank, and the moment it does it has gone out of business, it is canceled, it is done, it is finished. Just as much so as if you owed a man $1,000 and you paid him and you cancel your signature on that note, that note is finished.

The CHAIRMAN. I think I can perhaps clear the matter for the Senator. When you draw your check on a New York correspondent, and they send you currency for the cotton pickers, although it can not take their reserve, it will take their amount above the reserve and bring it down to the reserve point; and the moment they get to the reserve point they can not respond to your check without impairing the credit system.

Senator BRISTOW. I understand. We will get to that. That is another step. The currency we have is rigid. That is the complaint?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. You want a currency that you can swell at certain periods of the year because of business demands, etc.?

Mr. WEXLER. That the people can swell. We are simply the instruments—their intermediaries.

Senator BRISTOW. Of course I understand that. You want this currency to be issued when it is demanded, and that currency, when it is no longer demanded, automatically retired?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. Congress has provided a law by which that can be done, but you say that it has certain requirements that make it impracticable of use?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. I asked what changes were necessary in that law in order to make it practicable so that that currency which is now in

existence could be used for the purpose when the business of the country demanded it, and you say it can not be done, but that if a bank was organized and the bank could take exactly the same security which you propose and give you the additional currency on those securities, and you could use that currency from the bank to relieve this stringency, as soon as the stringency was over it would automatically retire. What I asked was, Why should not the currency which we now have be used in the same way and what amendments to the present law would be necessary in order to make it available? You do not seem to think that any amendments should be made.

Mr. WEXLER. Oh, yes; I said all the time that it is possible for the Government to go into the banking business and to establish a bank if it desires to.

Senator BRISTOW. Now, just a moment. We do not propose to put the Government in the banking business at all.

Mr. WEXLER. It will stop with these notes—just with these Aldrich-Vreeland notes.

Senator BRISTOW. This is a currency question, directed to giving elasticity to the currency.

Mr. WEXLER. Yes, sir; I see your point.

Senator BRISTOW. Why could not that currency be used for that purpose; and what amendments in the present law are necessary in order to meet that requirement without breaking up the present currency system which we now have?

Mr. WEXLER. I say it could be amended in this way: In the first place you would state that no one should get these notes who did not give in lieu of them commercial paper maturing not beyond 90 days. In the second place you would have to put behind them a reasonable gold reserve, say of 40 per cent, so that if any of the notes were presented for redemption in gold you would be prepared to redeem them in gold. In the next place, you have to establish all over the United States agencies for the carrying on of this business, with a competent man to pass upon the value of this paper and who would also furnish at the same time and at the same place redemption facilities where the notes could be turned back. If you amended it in those three instances and eliminated this interest-bearing feature that you have here, you would have an elastic note that would flow out according to the requirements of credit and would flow back as the demand for credit receded or expired.

Senator BRISTOW. I am very much obliged to you.

Mr. WEXLER. Then you are establishing a central bank with branches all over the country when you have done that. That is the effect of it. You can not get away from it. It would be by the Government instead of stockholders.

Senator HITCHCOCK. It is not receiving any deposits.

Mr. WEXLER. No.

Senator HITCHCOCK. You are simply making currency available for the banks?

Mr. WEXLER. Therefore, the gold that you require against the notes—the reserve—you have got to get from some other channel. Under the bank scheme one reserve is provided by the deposits that are made by the banks. If you do not do that, then you have a central bank that will have to provide the gold by some other means, either by taxation or appropriation or by selling bonds; so that in

effect you have a central bank providing a gold reserve simply from other channels than from the much easier and more economical channel of concentrating reserve for that purpose.

Senator BRISTOW. You say "eliminating this interest-bearing provision." Do you think that they would retire automatically if the interest-bearing provision was stricken out?

Mr. WEXLER. With the amendments that I have suggested, absolutely—just as freely as they were in the bank.

Senator BRISTOW. You think they would?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. You think there would be no danger of inflation?

Mr. WEXLER. Absolutely none, as long as you make the gold reserve and the character of paper that could be discounted. There is not the slightest chance of inflation, except one, and that is if you should discover in this country an enormous gold mine or a number of them that would produce a vast additional quantity of gold, or if the balance of trade would be enormously increased for a number of years and much gold would come from abroad. Then you could have inflation, because you have so much more free gold available. But you would need inflation then because the country would be so prosperous.

Senator REED. Do you know any way by which that free availability of gold could be encouraged?

Mr. WEXLER. No.

Senator BRISTOW. I would like very much to see that myself.

Mr. WEXLER. It has been going on for the last 50 years.

Senator BRISTOW. That is exactly what I wanted to get at. You believe that with this amendment that you have suggested in the Vreeland-Aldrich bill the individual banks would deal direct with the governmental agency?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. And secure from the Government the currency that was necessary?

Mr. WEXLER. Yes, sir.

Senator NELSON. Upon commercial paper.

Mr. WEXLER. Upon commercial paper. The Government would do everything, then, except receive deposits that it has provided that this central bank or these regional banks may do—perform every function except the receiving of deposits. If you had the receiving of deposits to-day you would make it still better and you would have a very good institution.

Senator REED. Mr. Wexler, will you be kind enough to put on a piece of paper the suggestions as to the things necessary to be done to make the present Aldrich-Vreeland Act workable far the purposes we have in mind; that is, furnishing currency in times when there is a demand for it, not simply emergency, but demands? I would like to have that in that form if I could have it.

Mr. WEXLER. I will have to have a copy of the bill to do that.

Senator REED. I will get that for you.

Mr. WEXLER. It would be very much better to write it all over new than it would be to amend the bill. Why this strong attachment for the Aldrich-Vreeland bill?

Senator REED. It is the system now in existence.

Mr. WEXLER. But it has never been used. It is simply an emergency measure by a party not in power to-day. They admitted it. They wanted to have an excuse——

Senator REED. I wanted to give you a text to keep you at it. I am afraid you might get off onto some of these theories——

Mr. WEXLER. Oh, no; I would go right along in the line of a bank. I am perfectly willing to undertake it, to the best of my ability.

Senator BRISTOW. It has been referred to here that commercial paper was 60-day paper, or 90-day paper, and I think the bill provides for 45-day paper, or it did as originally introduced. Why is it necessary to confine securities to 60 or 90 days?

Mr. WEXLER. Because the commercial transactions of the country are usually based upon paper running not beyond 90 days. It is strictly a commercial transaction. I mean to say, where a man exchanges his credit for the credit of the bank for his temporary requirements, and then, as you are using bank notes, giving a credit which may be taken out in bank notes, you should have something that is very liquid, and that you can calculate upon coming back within a reasonable length of time, a short time; by which means you could, if business is going to quicken, contract if you desire. The average length of time of these notes that are going to be discounted in a bank of that character, whether owned by the Government or by the banks, will be probably very much less than 90 days. Every bank will naturally discount the greatest number of notes coming due within the shortest time that it has in its portfolio, because it would be more profitable.

Senator BRISTOW. But you have in mind, now, the sale—I use terms that I am more familiar with, not being a banker—the sale of quickly maturing paper that, theoretically, could be collected.

Mr. WEXLER. Yes, sir.

Senator BRISTOW. So as to discharge the debt?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. If this currency is to be automatically retired when its use is no longer demanded, why should the basis of security upon which it is issued mature before it is retired, or within 30 or 90 days? Why would not a bond of the State or of the Government, or a farm mortgage or any first-class paper, serve the same purpose?

Mr. WEXLER. For the reason that the paper maturing within 90 days the maker of the paper must meet himself. If you give me your note for $1,000, due in 90 days, I rediscount that note with the regional bank; I indorse it; I do not pay the note, only in case of your default. You pay the note. If you come to me with a bond maturing in 50 years of a State or of a county or of a school board, or anything of that kind, the maturity of it is so long off that, in the ordinary operation of the bank, it would be worked out in the ultimate. The note would stay out just as long as the obligation would stay out; or if the note was presented sooner than the obligation was presented, you would only have 40 per cent of gold to pay it with, and you would soon have all that gold taken out.

Senator REED. If you went to the bank and borrowed money on Government bonds as collateral, when your obligation matured you would have to take part of the money to pay it.

Mr. WEXLER. Yes, sir.

Senator REED. But if you had short-time paper, before it became due the short-time paper would be paid and you would not have to pay it?

Mr. WEXLER. That is the idea. I will make it a little clearer. Suppose all the paper that the central or the regional bank discounted was due in five years. Say it was $10,000,000, due in five years. It issued its notes when it discounted that paper, and those notes circulated around among the people, and through their transactions got back to the window of the bank. What has the bank got to do it with? Forty cents on the dollar in gold and 100 per cent of the paper maturing in five years? So you have got to sacrifice this other paper to meet the remaining 60 per cent. There would not be anybody to go to to get it. Then you have to rediscount it or sell the security or default.

Senator BRISTOW. That is theoretically very sound.

Mr. WEXLER. Yes; and I believe that would work out.

Senator BRISTOW. But as a matter of fact in the practical business of the country—I do not know how it is in the large cities—the 6,000 of the 7,000 national banks do not expect their 90-day paper to be paid when it is due. They carry it on from 90-day periods for years, sometimes.

Mr. WEXLER. But they expect a sufficient percentage of it to be paid to meet the natural demand that they are going to have for money. If they did not, they would be broke. You will find that the average bank that breaks has got 90 per cent of uncollectible paper, and perhaps every dollar of it is good ultimately.

Senator BRISTOW. Do you think that with this other class of securities hypothecated to this currency there would be any loss of the short-time paper taken up in the bank than if that was the paper that was hypothecated?

Mr. WEXLER. I do not exactly get that.

Senator BRISTOW. Suppose that the bank gets $100,000 worth of these notes and puts up, instead of 90-day paper, farm mortgages?

Mr. WEXLER. The bank puts them up with whom?

Senator BRISTOW. With the Government or with the regional reserve bank, or with the central bank, whichever system you might adopt.

Mr. WEXLER. Farm mortgages due when?

Senator BRISTOW. Oh, any time within a year to five years.

Mr. WEXLER. They would not be allowed to take it.

Senator BRISTOW. Suppose they are allowed?

Mr. WEXLER. Well, suppose they were.

Senator BRISTOW. I know they are not now. The fact that that bank had the farm mortgages paid which were as valuable to it as any other securities, instead of 90-day paper, that would not result in less 90-day paper being paid when due than if it did not have the farm mortgages. The paper would be paid whether it was hypothecated or not?

Mr. WEXLER. Yes, sir; if it was due, I presume.

Senator BRISTOW. If the Government should issue this currency under an act similar to the Vreeland-Aldrich Act, would it not be more convenient for the Government to require bonds or long-time paper or permit long-time paper and short-time paper?

Mr. WEXLER. It would be more convenient for the Government in the fact that it would save investigation by the credit system that it would have to have in order to pass upon notes, but it would not have a sound circulating medium. The Government might be in the same position that the bank would be in if it would have a vast amount of long-time paper outstanding against a vast amount of notes due on demand and only 40 cents on the dollar, of gold, to take it up with. How would the Government provide for the other 60 per cent when these notes came back?

Senator BRISTOW. That is upon the theory that the demand of the short-time paper can always be realized upon?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. Of course, with your wide experience you know that it can not be realized upon during close times, because the men that make the notes can not pay them when they are due.

Mr. WEXLER. Experience showed that during the panic of 1907 nearly every dollar of the short-time commercial paper paid out through note brokers, which amounted in the aggregate to millions of dollars of the class of paper which is used by a great many banks as a secondary reserve—that is, they know it is going to be paid—was paid at that time. The Federal reserve bank, the central bank, would get its money in any event, because the bank discounting it, having indorsed the paper, even though it had to renew the note of John Smith which had matured in 90 days and was not paid, it would go over to the central or regional bank and take up that note. In a week afterwards it might come and bring John Smith's new 90-day note and rediscount it. But in the meantime the Government, if you have a Government bank, or the central reserve bank, or the regional bank, would have its money, and there would be nothing to prevent its getting its money.

Senator BRISTOW. Take the panic of 1907. The Armour Packing Co. had a large quantity of this commercial paper—that is what you call it, is it not?

Mr. WEXLER. Yes, sir.

Senator BRISTOW (continuing). Scattered all over the country. They were seeking a market for it. I think John Wanamaker had a great deal of it. Country banks were being solicited to take it. That is what is called commercial paper?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. When that is due it is paid, and the money to pay it is paid out for more paper just like it?

Mr. WEXLER. No; I will have to differ with you on that. Of course there are some firms in connection with which that may be true; but let me tell you that for the last six months there has been a liquidation of notes and also of commercial paper, without the ability to float a new paper in lieu of it. That paper has been retired. I know one city where there has been considerable discrimination on the part of the bankers all over the country against the paper on account of the tariff and the fear of the effect it might have upon that section. They have been unable to rediscount this paper during the progress of the tariff bill, and they had to retire it themselves, and they have retired it. They had to pay it off. And that is what the solvent merchant can do when he has to do it. He may have to

make sacrifices, he may have to sell commodities or securities, or whatever he may have, but he meets it, because his whole future and commercial standing depends upon his meeting it. He does not know who holds his note or whom to go to to get extension.

Senator BRISTOW. Is not the very purpose of securing this elasticity to give him relief under circumstances of that kind, so that he will not be forced to meet an abligation which he can not meet without serious sacrifice?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. That is what we want elasticity for.

Mr. WEXLER. That is what we want a credit institution for.

Senator BRISTOW. Of course, I have always had in mind taxing this surplus currency so that it would be forced to take up part of this taxation. If there were a tax put on notes of that kind, then as soon as the merchant or the business man of whatever nature could get the money and get out from under the burden of this additional interest he would do it, and it would then retire as soon as the financial condition was so that it could be done without a great sacrifice.

Mr. WEXLER. In a sense the tax would be paid, but it would be better accomplished by the rate of interest that the Government or bank would charge upon the discount. That would in one sense be a tax.

Senator BRISTOW. It would be the same thing, only getting at it in a different way.

Mr. WEXLER. It would be getting at it in a more sensible, business-like way.

Senator BRISTOW. I have had in mind that, without discriminating against long-time paper in favor of the short-time commercial paper, that the same object could be met and that these notes would be retired and the obligations would be met by the sale or the contracting of the line of business that the men are in, in order to get the cash without too great sacrifice.

Mr. WEXLER. My testimony, I think, would show the very great danger of taking long-time paper against demand obligations.

Senator BRISTOW. I have heard that.

Mr. WEXLER. I think that is quite conclusive. Let me call this thought to your mind, which I know you have considered. You fear that a great number of people throughout the country who were not in a position to furnish short-time paper might not have facilities. Is not that your idea?

Senator BRISTOW. Yes.

Mr. WEXLER. The answer to that is this, that the remainder of the resources of the banks throughout the country would be available for longer maturing paper, in which all banks are willing to invest a certain amount. The trust companies, savings banks, and national banks would take care of a reasonable demand of that sort, as much as there ought to be a demand of that sort. There should not be too much of it. The evolution of it is this: That section of territory south of the Ohio River and west of the Mississippi is in a period of great development. The section is more or less in a crude state. If we had an instrument of credit, such as this bank which we are endeavoring to have established, where every man knew that he could get the money that he needed for his growing business requirements, he would invest his surplus money and his profits in that

development of his own section; he would feel safe in doing so, because he would know that the money he needed to carry on his growing business would always be available to him by reason of this immense reservoir of credit. If that was used for that particular purpose, and not for the purpose of long-time investment, it would be a most desirable condition. In other words, suppose I am a merchant in business, and this year I have made a considerable amount of money. I have a certain amount of credit. If I knew that I was certain to have people to go to to get that credit that I am entitled to, I could afford to invest that surplus profit in a fixed investment which would assist in the upbuilding of my section. But without such a reservoir of credit I must keep this money on hand to take care of the possibility of my not being able to get the credit when I want it. Such is the fear that the business man of the United States labors under to-day, because he can not predict with any degree of certainty what the financial conditions are going to be for six months ahead.

Senator BRISTOW. I will give you my impressions, so that you may correct them if they are wrong. It seems to me that legislation such as you suggest is in the interest of the concerns that float short-time paper, like the Armour Packing Co., John Wanamaker, Woodward & Lothrop, down here in Washington, and other big concerns of that kind, that put it out on the public in order to get the money that they need, and they sell it wherever they can find customers, through brokers, etc.

The business man in a small way, out in the country, deals in a different kind of security. He has no reputation or a reserve so that he can borrow money from anybody. He goes to his bank and he borrows the money, or he gets it in various ways. He may mortgage his building, or his farm for money that he needs. That security is as good as any security. It will be paid. Behind a farm mortgage is the real estate itself, and if the mortgage is conservatively made there is never any better from the point of security. A State bond, where the finances of the State are properly managed, a county bond or a city bond, where the finances are properly managed, have a fixed value as much as any other kind of property that we have. If means are provided so that these additional notes are to automatically retire because it is not profitable to keep them out in dull times, when there is plenty of money, why is not that security, as the basis of ultimate payment, a sound security, instead of this that floats about in the hands of brokers?

Senator NELSON. Will you let me, in that connection, make one suggestion? There are a class of bonds that are listed on the stock exchange, railroad bonds, utility bonds, and, I think, city and county bonds, that there is always a market for. There is a public market where you can always dispose of those securities, and we have no such stock exchange where we can always market a farm mortgage, no matter how good it is. If we had such a stock exchange as that, the case would be a clear one. Then it could always be converted into money. I merely suggest that.

Mr. WEXLER. Even then the paper that would be taken, secured by that class of stock, if the demand note is going to be issued against it, and no matter what the short period—because you should always bear in mind that you have a demand obligation against it, with only 40 per cent to pay for it—the demand obligation must be of a liquid

character. You might take a 90-day note secured by the bond of the city of New York, which is listed, and that would be quite as convertible as a piece of convertible paper, but you do not want to use the machinery of a bank of issue for investments in fixed securities.

Senator BRISTOW. But you are speaking of a permanent currency, it seems to me, or a permanent condition, instead of a temporary condition. This inflation is to meet an important demand, and if you press the short-time paper for immediate payment when it is due you do not relieve the stringency at all, you merely accelerate it.

Mr. WEXLER. Senator, that is not a fact. You do not press the short-time paper for payment. The short-time paper—this commercial paper—pays itself. Everybody meets that kind of paper. That is the kind of paper that is put out for such purposes as that. A merchant goes to New York to buy his goods. He brings them to his local town. By discounting his bills he can make 2 per cent more than he could borrow the money at. He goes to his bank and discounts his note for $3,000, buys his exchange, and pays his bill. Constructively, he is hypothecating or pledging that $3,000 of merchandise he bought with that bank. He does not actually do it; he constructively follows the operation.

The CHAIRMAN. And he gets the money out of the pockets of the people.

Mr. WEXLER. He gets the money out of the deposits, which are the people's money.

Senator NELSON. He gets it from the sale of the goods.

The CHAIRMAN. The people really pay his bills in the goods they buy from him.

Mr. WEXLER. That is the next operation. Now, he proceeds to sell, and by the end of 90 days he has sold to the people $3,000 of this merchandise. He takes those bills and meets that obligation. That is a current trade transaction. That is the kind of business that you want to encourage in this country, so that every merchant in the United States who conducts his business properly can feel that he can always obtain his reasonable credit requirements.

Senator BRISTOW. I do not want to carry this to an unreasonable length at all, but I realize the force of what you say as to a local merchant when he goes and discounts the 2 per cent for cash. It is profitable to him to take that discount, because his discounts in the course of a year will amount to a great deal more than the interest that he will pay to local banks.

Mr. WEXLER. Exactly.

Senator BRISTOW. And he makes the note and discounts it. That is the way they all do. But the practical truth is, in our section of the State, that nine-tenths of the merchants use that money that they borrow as capital; that is, they continue to discount over and over, and they renew their notes until they have given enough to take up those notes, and that they will probably enlarge the business and make some more.

Mr. WEXLER. I realize there is a good deal of that.

Senator BRISTOW. My contention is that while theoretically it is 90-day paper, as a matter of fact they can not pay that at all unless they foreclose——

Mr. WEXLER (interrupting). But there is always a sufficient number of them who do both. They do not all pay them. We have the

same condition. Our loans amount to about $15,000,000. We have a great many people who constantly renew their notes. While we do not like it, we do it. But there are a great many who meet their obligations promptly, and our notes paid off are frequently more than our new loans. There is nothing inherently wrong in that, so you need not worry about that.

Senator BRISTOW. One more question. The chairman of the committee wants to interrogate another gentleman who is present. But I think it was Mr. Reynolds or Mr. Forgan, I do not remember which, or it might have been yourself, this forenoon, that said this currency, these bank notes which you are advocating, might be used as legal tender for the payment of debts, the purchase of property, land, etc.

Mr. WEXLER. I said that.

Senator BRISTOW. The remark was that the law could make a man take them for the purchase of a piece of land.

Mr. WEXLER. Yes, sir.

Senator BRISTOW. Do you think the Government would be justified in making a citizen take a note as payment for any kind of property that the Government itself would not guarantee to be good?

Mr. WEXLER. I think that the Government has a perfect right to make these notes legal tender, and that does not prevent two individuals who are trading together from making their own transactions. You may be selling me a piece of land. You say:

Though these notes are a legal tender, I will sell you this land, but you may pay me in gold or silver or corn or any other thing.

A great many bonds are payable in gold of the present weight and fineness. Nearly all of them are. But there can be no legal objection to the Government making these notes, if they so desire, legal tender. Suppose that the transaction was not made with gold behind it, and the notes are legal tender, and when you come in to sign the act the man will say, "I want gold." You say,

All right; come over to the bank with me. I will convert these notes into gold and give you gold.

There will be no difficulty about that. There will be no hardship upon anybody if the notes are made legal tender, so long as they do not become reserve.

Senator BRISTOW. Do I understand you to advocate that the Government authorize a bank to issue notes——

Mr. WEXLER. The regional bank.

Senator BRISTOW. Yes. And that the Government does not guarantee those notes at all?

Mr. WEXLER. I think it would be simply painting the lily.

Senator BRISTOW. And still the Government says to the citizen:

You have got to take that note for your property when it is tendered.

Mr. WEXLER. Unless you want something else.

Senator SHAFROTH. In the absence of a specific contract to the contrary.

Mr. WEXLER. Unless in the absence of a specific contract to the contrary the Government simply declares that its notes are tenderable for all general business purposes.

Senator BRISTOW. I would not agree to any such proposition as that. We have $346,000,000 of greenbacks, theoretically, that are

outstanding, and we have $150,000,000 in gold that is a redemption fund to maintain their parity.

Mr. WEXLER. Yes, sir.

Senator BRISTOW. How much of that $346,000,000 do you think is in existence?

Mr. WEXLER. Do you mean that has been burned up or destroyed?

Senator BRISTOW. That has not been lost.

Mr. WEXLER. It would be a pure guess. Your own ideas on that subject would be just as accurate as mine.

Senator HITCHCOCK. About half of them are in the bank now as part of the reserve?

Mr. WEXLER. Yes. The other half, I do not know where they are. If I was running this Government, the first thing I would do would be to put enough gold behind these greenbacks and wipe them out of existence.

Senator SHAFROTH. That would contract the currency, would it not—the difference between $346,000,000 and $150,000,000?

Mr. WEXLER. That is what it would do; but I have in mind that you are going to pass some sort of an instrument of credit that is going to take the place of it.

Senator BRISTOW. Have you ever kept any record to determine how much or what per cent of your national-bank notes were lost in the course of a year?

Mr. WEXLER. No, sir.

Senator BRISTOW. Suppose you issued $100,000 of national-bank notes and they were out a year. What per cent of them would return?

Mr. WEXLER. We have absolutely no means of knowing, Senator.

Senator BRISTOW. No way of determining?

Mr. WEXLER. No way of determining. All we can tell is how many come in; but we can not tell how many are in existence. You find occasionally an old note circulating in the bank that has been out of existence for 16 years. It has never happened to get into the Treasury for redemption. The money is there to pay it with, of course, but it never happened to have gone there.

Senator BRISTOW. When a bank goes out of existence, and has been out of existence for 15 years, presumably there are very few of its notes that are out?

Mr. WEXLER. Very few.

Senator BRISTOW. Has there ever been to your knowledge any attempt made to ascertain the percentage of national bank notes that did not turn up for redemption?

Mr. WEXLER. I have never heard it estimated. The Government has quite a large fund. I should judge that any estimate that might be made would be pure guesswork. I can not conceive how anyone could make an estimate of how many notes have been burned up and destroyed in 40 years.

Senator BRISTOW. We have out about a billion and 80 millions of gold certificates.

Mr. WEXLER. About that—a billion 100 million.

Senator BRISTOW. Of course you have no idea how much or what quantity of these certificates have been destroyed, lost, burned up or gone down in the ocean, etc.?

Mr. WEXLER. Absolutely none.

Senator NELSON. Or how many there are in Europe.

Mr. WEXLER. No; I can not tell that.

Senator BRISTOW. Whatever amount is lost, that gold is there, then, as a part of the Government asset?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. If the suggestions that you make were in effect and in operation that gold would belong to the banks instead of the Government?

Mr. WEXLER. No, sir. That gold would belong to the Government just the same, because the bank could never get hold of the note to withdraw the gold if the note is destroyed. In other words, you will never get that gold without presenting the note.

Senator BRISTOW. Suppose that the banks themselves issue the notes and get the gold reserves?

Mr. WEXLER. Yes, sir.

Senator BRISTOW. The profits that would come from the losses would be the bank's deposits instead of the Government's, would they not?

Mr. WEXLER. You mean that if the new banks should issue bills of credit that would never come back for redemption it would be a profit to the bank?

Senator BRISTOW. Yes.

Mr. WEXLER. I am inclined to think that it would. It would be an obligation that it had even though it had never been presented. We have in our bank about $35,000 of deposits which have been there for years and have never been called for; we can not locate the individuals or the individuals have died or gone away; yet the deposit remains there for the rest of time. We can not use it. Of course, it is earning interest by loaning it out, but it is there and belongs to them. The same objection would arise in the bank.

Senator BRISTOW. The objection would be a similar objection, would it not? You have the gold and would issue a note; the note is lost; it never turns up, so that you never have to pay the note?

Mr. WEXLER. You simply continue to have the liability. It would be a constant liability which we would have no means of paying.

Senator BRISTOW. But still it is only a liability in theory and not one in fact?

Mr. WEXLER. They sometimes turn up when you least expect them. Take a case which happened recently. Some time ago a party died in Mexico, and they had in an old trunk $5,000 of Louisiana State bonds, perfectly good, of an issue of some 25 years ago. The money was there to the credit of that $5,000 in bonds, and they came in. It is a liability.

Senator BRISTOW. You have, then, no way of estimating, you say, the percentage of what is lost per annum?

Mr. WEXLER. I think it is a comparatively small amount. It is very small. If a note is torn into small pieces there are experts here in the department in Washington who are perfectly remarkable in their ability to decipher them and pay them.

Senator NELSON. That is, if you can identify the note?

Mr. WEXLER. If you can identify the note by any means you get your money out of it.

Senator NELSON. And I imagine that in the case of a gold certificate, if the holder of it could give satisfactory proof that the cer-

tificate was burned and would give the Government an indemnity bond, as they do in the case of individuals, he would get his gold?

Mr. WEXLER. He might; yes, sir.

Senator HITCHCOCK. There are two propositions involved in this legislation; one banking, and the other currency. As a practical banker you would have two methods of securing additional currency, should the bill, or should your bill become a law. You would either draw upon your own funds in your own vault, or you would draw upon the funds in the reserve bank, or on some other correspondent, or you could call for currency which would be issued either by the banks or by the Treasury. Now, then, why can not those two functions be separate? Why can not the banking system of the United States be permitted to remain as it is now, so that you can still draw upon your correspondent—your reserve agents—for such credit as you have and apply to the Government instead of to a bank when you need the additional funds?

Mr. WEXLER. I have just stated that that can be done by the establishment of such a system. The Government is going to issue its own obligations.

Senator HITCHCOCK. The Government is going to issue its own obligations under this bill.

Mr. WEXLER. Under your bill it would not. You are going to issue obligations payable by the bank; consequently you will have a reserve against it. Taking the same class of collateral we are providing here you do not need to do any other business with banks except to provide that currency and extend that credit. If you were to separate it, how would we get the notes from you? You say you want to separate the currency from the bank notes. How would I get it from the Government unless I gave something in lieu of it?

Senator HITCHCOCK. Well, suppose you exhaust the cash in your vaults down to the reserve limit?

Mr. WEXLER. Yes.

Senator HITCHCOCK. And suppose you exhausted the deposits which you have with your correspondent's bank down to the reserve limit?

Mr. WEXLER. Yes.

Senator HITCHCOCK. Then you could apply to the Subtreasurer in New Orleans to make your deposits of security and get your United States notes.

Mr. WEXLER. Then I have to separate the bank from currency.

Senator HITCHCOCK. You then have two strings to your bow. If you are not able to get what you want from your bank correspondent or reserves, you can apply to the note-issuing power of the United States, which is the Government. What is the objection to that?

Mr. WEXLER. Well, now, you are coming back to the original proposition, and that is that you have gone into the banking business. You have gone into the lending of your credit in exchange for the credit of the public.

Senator HITCHCOCK. I am asking you what, in your opinion, would be the effect if the banks of the country were permitted, either as individuals or as small clearing-house associations, to apply direct to the Treasury when additional currency is needed by the business demands of the country?

Mr. WEXLER. As clearing-house associations I think it would be fatal.

Senator HITCHCOCK. Suppose we could make the proper conditions to do that?

Mr. WEXLER. I do not think it is possible. No man is going to do that unless on the very threshold of panic or failure.

Senator HITCHCOCK. Let us see about that. You are running a national bank. Is there any particular reason why you should not apply to the Government when you desire additional currency when you would apply to another bank under the same circumstances? You certainly would not expose your condition to another bank in preference to the Treasury, would you?

Mr. WEXLER. I have said that if you would allow me to go direct to the Treasury it can be worked out. I do not think it would be feasible if you were to make me go to a clearing house. No bank is going to put itself into that position unless they absolutely must do so. Of course when about to fail they do do that now.

Senator HITCHCOCK. Your answer would be, that it would be feasible for individual banks to go direct to the Treasury, but it would not be feasible to have the banks go to an association?

Mr. WEXLER. Yes, sir.

Senator HITCHCOCK. Is it not a fact that at times the banks do that very thing—that they have clearing-house meetings and expose their real conditions there? And they help them. And is it not a fact that the clearing houses have examiners who examine those banks? Therefore, do you not have substantially that condition now?

Mr. WEXLER. But they do not give them all the details of their business.

Senator HITCHCOCK. It would not be necessary to know the details if you supplied the clearing house in your town or the national association with a statement of good paper. Your statement would be just to the effect that the paper was good, and it seems to me that any request for more particular information would not be allowable.

Mr. WEXLER. Of course it would be none of their business; I would not give them the information. We do have clearing-house examiners. There is one employed in New Orleans who examines all the banks, but he is not allowed to make any report except to state the results of his examination of such and such a bank has nothing to be criticized. To do what you want us to do—it is done occasionally—all the other banks would have to be identically in the same situation. When they are all in the same boat, like in 1907, they are all willing to throw down the bars and assist each other, but there is not any one bank that is going to a clearing house by itself and expose its condition. The information would leak out in spite of everything that could be done to prevent it, and the next morning there would be a run on that bank. The scheme is impracticable.

Senator HITCHCOCK. Is it not generally true that the banks in a region are in substantially the same condition as the season's demand for money comes in. When the time comes for them to pay out money, as in the case of the cotton crop down South, the banks all

find the same demands for money, and would they not all cooperate with each other under those circumstances to overcome the difficulty?

Mr. WEXLER. Not at all. In our city there are a number of banks that do no country banking business at all. They do not care for that business at all. Their demand for currency is insignificant compared with ours. We supply practically as much currency for moving the crops as two-thirds of the rest of the banks of that section. Consequently our demands are very much greater. Other banks there do different classes of business. No two banks do identically the same class of business in a given city.

Senator HITCHCOCK. You make this distinction then, if I understand you correctly: That you would be willing to adopt that system and believe it would work satisfactorily provided the individual bank could go direct to the Treasury instead of to a reserve bank?

Mr. WEXLER. I am not saying I would adopt that system. There are too many systems which I would prefer to that. I was saying, and reiterate what I have said, that the Government could formulate a system by which it could furnish the country with a flexible currency, coupled with credit, provided it established the proper machinery and placed behind the notes the proper resources and discounted only the same class of paper, made properly safe against the demand obligations. The Government can do it as well from a practical standpoint, owning all the stocks, as if the banks owned all the stock. In other respects, Senator, the banks would have to have great similarity.

Senator HITCHCOCK. Every three or four months the Government sends an expert who goes over your books, does it not?

Mr. WEXLER. Yes, sir.

Senator HITCHCOCK. He examines your commercial paper and he reports to the Treasury Department whether the paper is good or bad?

Mr. WEXLER. He does not report that, because he does not know whether the paper is good or bad. He reports upon any excess of loans.

Senator HITCHCOCK. If he finds paper in your bank and finds it duplicated in other banks, he calls attention to that fact, and he says, "John Smith is borrowing in too many different banks."

Mr. WEXLER. Oh, no.

Senator HITCHCOCK. I have known of cases of that sort, and a good examiner does that very thing.

Mr. WEXLER. He might report, "I find John Smith's paper in these two banks," but he could not do anything further.

Senator HITCHCOCK. Therefore the Government already has its experts employed who examine commercial paper in the national banks, and there would be no difficulty in having the expert of New Orleans pass upon any paper submitted to him?

Mr. WEXLER. Not at all. The Government can hire experts as well as the individual.

Senator HITCHCOCK. And you could procure currency to a reasonable extent from the Subtreasury in New Orleans just as well as from a central bank or regional bank?

Mr. WEXLER. Unquestionably so.

Senator HITCHCOCK. And that could be done without the creation of all this new machinery and without this tremendous centralizing of paper?

Mr. WEXLER. By adopting your plan you just centralize that much more. You centralize in the Government.

Senator HITCHCOCK. No; you leave the currency-issuing power with the Government and banking business with the bankers.

Mr. WEXLER. No; you do not. You are taking the banking business when you discount the paper the bank brings to you. You are performing their function, centralizing the banking and centralizing the deposits.

Senator HITCHCOCK. Well, as I view this thing, it is a new proposition, and instead of adding it to the functions of the bank I want to keep it away from the banks so as to avoid centralization.

Mr. WEXLER. Then you would make this a Government bank.

Senator HITCHCOCK. My position is that we are in danger of entering upon a scheme of centralization. You bankers impress me as wanting the most centralized scheme possible. Senator Owen and Mr. Glass have drawn a bill not so centralized, but which I still think has features of centralization; and I am asking you whether it would not be possible to avoid that danger by avoiding incorporating the currency-providing power to this system, which it is proposed to create, and allowing that to remain with the Government?

Mr. WEXLER. That is perfectly practicable, Senator; but you are forgetting that when you do that you are also incorporating with it the discounting privilege and all the functions that we propose for this bank except the depositing of the reserves.

The CHAIRMAN. You mean the Government will have to discount these notes?

Mr. WEXLER. If we ask them for $100,000 of Government notes, they are going to ask for something in exchange for them.

The CHAIRMAN. What will you give?

Mr. WEXLER. My customers' notes.

The CHAIRMAN. Then the Government would discount those notes and give you currency for them?

Mr. WEXLER. Absolutely.

The CHAIRMAN. And that is what you regard as banking, except receiving deposits?

Mr. WEXLER. Yes; I would regard that as banking, except receiving the deposits. Why should not they receive deposits if they go that far? Why inaugurate the system and then not receive the deposits? Why stop there? Why not go right on?

The CHAIRMAN. You mean that this gold would be deposited in the reserve banks?

Mr. WEXLER. Exactly.

The CHAIRMAN. And in that way the banks would furnish the gold necessary to carry on this scheme?

Mr. WEXLER. Yes. You will have in every respect the same kind of a bank that we would have, except the stock will be owned exclusively by the Government instead of by the bank. There are certain fundamentals in this proposition which are just like the law of gravity. You can not get away from that.

Senator NELSON. Mr. Wexler, is it not true that under present conditions the Government has only one or two ways of getting an

income of money—one by taxation and the other by sale of its obligations?

Mr. WEXLER. That is all.

Senator NELSON. This Government in paying out money—the only way the Government pays out any of its money it pays out for running expenses, its liabilities, and its interest, whether in greenbacks or anything else. In no other way can the Government put its money into circulation, can it?

Mr. WEXLER. None that I know of.

Senator NELSON. If the Government wants to issue its money and get its money out into circulation, beyond what is necessary to pay its current expenses, it can only be done by allowing borrowers to deposit their commercial paper with the Government.

Mr. WEXLER. Yes; and get currency for it.

Senator NELSON. And the moment they do that has the Government not gone into the banking business?

Mr. WEXLER. Absolutely.

Senator NELSON. And you can not get the Government's money into circulation any other way?

Mr. WEXLER. No, sir; none in the world.

Senator NELSON. Is it not also true that the Government can issue any amount of legal paper money, but the question will always arise, How are you going to get that money into circulation?

Mr. WEXLER. Yes, sir.

Senator NELSON. And the only way the Government can legitimately put its money into circulation is by the payment of its current expenses, of its running expenses and obligations; if anything more is paid out by the Government it has to be done by a system of credits, by banking. I can go to the Government and get my salary paid every month—that money goes into circulation—so can every other employee of the Government; so does the bondholder get his interest. But if any more Government money is wanted in circulation it can only come by application of the borrower to get that currency, and he must put up some security for it.

Mr. WEXLER. It can be done in no other way.

Senator NELSON. Because it stands to reason that the Government would not issue its currency without some consideration; and the moment it does that—the moment the Government does that—it would perform one of the functions that is implied in this regional reserve bill.

Mr. WEXLER. Absolutely.

Senator SHAFROTH. You do not deny, however, that legal-tender money could be taken by the Government and substituted for national-bank notes?

Senator NELSON. That is foreign to the question; you might substitute and thereby get it into circulation.

Senator SHAFROTH. When the national-bank note goes into circulation for commercial purposes you substitute United States notes for it, do you not?

Senator NELSON. That is true; but the only inflow of the Government is in the shape of taxes, outside of its bonds, of course; and the only outflow is paying its obligations.

Senator SHAFROTH. But its inflow consists of these bank notes now in existence, and there is a very large percentage of them.

Senator NELSON. Yes; but how are the holders going to get their money from the Government?

The CHAIRMAN. As I understand it, gentlemen, you are not in conflict at all. What you are both saying is true.

Mr. WEXLER. It is true that if the Government wants to issue a lot of greenbacks, as it did in 1861, and say, "Our note is just as good as our bond," and say to the bankers, "You have $6,000,000 2 per cent bonds; we will give you $6,000,000 of our noninterest-bearing notes; will you take it?" It is true that we gave you our bonds and you gave us your notes.

Senator SHAFROTH. And that gets into circulation, but you have only changed the form of it.

Mr. WEXLER. You have put out $700,000,000 of this fiat money and taken back your bonds and retired $700,000,000 bank-note circulation. The next question is, What kind of a note have you given me; how are you going to meet it; when are you going to meet it; are you going to pay it in gold; will we get it when we want it; if you will say what you are to pay for it, can you pay it? You have to provide all that kind of machinery.

Senator SHAFROTH. But you will have 50 per cent reserve and $128,000,000 of gold in addition.

Senator HITCHCOCK. Now, I would just like to ask you a few questions on that same line. Suppose we say that the Government arranges to issue a possible $500,000,000 of notes, which it will lend to the bankers as they require it from season to season. We have a Subtreasury in New Orleans and 40 or 50 subtreasuries throughout the United States where they come into contact with the banks.

Mr. WEXLER. With or without security?

Senator HITCHCOCK. With security. The banks put up security with the Subtreasury. Of course, we presume the banks will give their obligations promptly. In order to make this issue of $500,000,000 safe the Government issues a gold reserve of 40 per cent, which would require the issuing of $240,000,000 in bonds. The interest on these bonds at 3 per cent would be $8,200,000 a year. Therefore, at an annual expense of $8,200,000 a year we would provide a possible $500,000,000 of Government notes to loan the bankers. Let us suppose that the notes are only out a third of the year, but while they are out the Government is deriving an income from the banks of 4 per cent upon the notes.

Senator SHAFROTH. Let me understand you; the Government gets 4 per cent?

Senator HITCHCOCK. Yes; the Government gets 4 per cent.

Senator SHAFROTH. For what?

Senator HITCHCOCK. For the notes which it loans to the banks.

Mr. WEXLER. And they rediscount the paper.

Senator HITCHCOCK. The Government is loaning me money on the security of the paper deposits.

Senator SHAFROTH. I supposed 2 per cent was what they were getting.

Senator HITCHCOCK. I am proposing that the Government shall advance this currency to the banks and charge them for the privilege of using it, and that the charge shall be 4 per cent. If only out four months it would amount to $7,000,000, and that is almost what the Government would pay for the whole year. The banks in that way,

by paying for the use of the notes during part of the year, would pay to the Government more than the Government has paid in interest on the bonds. We have a gold redemption fund in the Treasury ready to meet the notes as they come in, and the banks are paying the whole expense of the operation. You say that would provide an elastic fund.

Mr. WEXLER. I think it would be perfectly feasible. That is, a central bank owned by the Government.

Senator HITCHCOCK. There would be no expense to it, and there would be an elastic borrowing fund provided.

Mr. WEXLER. Yes; for all of them.

Senator HITCHCOCK. There would be no machinery?

Mr. WEXLER. Yes; there would be a lot of machinery.

Senator HITCHCOCK. Well, what would you have to have?

Mr. WEXLER. You will have to have a central agency and not less than 50 branches.

Senator HITCHCOCK. Well, we have nine subtreasuries now, and we have experts, and it seems to me that we can have other experts whose only duty would be passing on the paper.

Mr. WEXLER. You will be organizing a central bank owned by the Government practically along the provisions we have suggested.

Senator HITCHCOCK. All of the money-lending business of the country would be done by the banks, would it not?

Mr. WEXLER. Yes.

Senator HITCHCOCK. And all of the depositing business would be done by the banks of the country; and all of the exchange business of the country would be done by the banks, and all the Government would have to do would be to furnish to the banks an elastic currency for which it would charge them enough to cover all the expense.

Mr. WEXLER. Senator, if that is good—and we say it is—if the Government owns the bank, I do not know that it makes a lot of difference. If that is good, why not go on a step further and take the deposits? What do you want to go to the expense of selling all these bonds and incurring these obligations when we have the gold in our own vaults as reserves against our deposits, and deposited all over the United States in the various reserve agencies? Why not put a large proportion of it into the Government banks?

Senator HITCHCOCK. Because nothing would be gained by that, would it?

Mr. WEXLER. Yes; it would be much more economic. You would not have to incur the Government obligation at all.

Senator HITCHCOCK. I do not agree with you there.

Mr. WEXLER. Well, I think after you consider that a while you will see that with that exception you are establishing a Government bank. You might just as well go the whole way; it will be much more economical. You will have a reservoir of credit which is what we want, instead of having our reserves in these little piles all over the United States.

Senator HITCHCOCK. But your reserves would not be necessary if you could go to the Treasury for this additional currency. You would not be forced to deplete your reserves in New York, Chicago, and St. Louis.

Mr. WEXLER. Not a bit; it could be done; but I think if you went the whole way you would have a better institution.

Senator HITCHCOCK. Then, at times when there was not much demand for this money, the gold reserves could be used to buy in these 3 per cent bonds and thus keep them at par. Would not that be possible?

Mr. WEXLER. Yes, sir.

Senator HITCHCOCK. Do you not think that would keep the 3 per cents at par?

Mr. WEXLER. Yes; the Government could buy them in and put them out again if it could always find purchasers when the man came for credit, and that demand might come at any time.

Senator HITCHCOCK. But there would always be a margin because the Government would be charging the bank a higher rate of interest.

Senator NELSON. Here is one thing you overlooked: We had a lesson in respect to that during the last session of the Cleveland administration. Whenever the value of gold—whenever it is profitable or whenever they need the gold in France or Germany, they send to this country and buy it. All a man has to do here if he needs his gold, as the brokers did in New York, is to take a bundle of the Treasury notes of the Government and go down there and say, "I want the gold." Then he can ship it to Europe at profit. That was done time and time again during the last year of Cleveland's administration, and that was one of the reasons why he had to go out and sell the bonds of the Government for what he could get for them.

Mr. WEXLER. That is the main objection, Senator, to a Government bank instead of a bank like that which we suggest. A Government bank is constantly liable to attack by having the gold taken away from it, in which event you would have to do just like Mr. Cleveland did—sell the bonds for what you can get for them. I would let the banks do that; they have the machinery to do it with.

Senator NELSON. And the banks can always replenish their gold reserve by the purchase of bills of exchange drawn upon the necessaries of life like wheat, cotton, or flour. Europe has to have those commodities and the banks can always get the gold for them when the balance of trade is in our favor. In the case of the Government it can only get the gold by selling its bonds, unless you extend its banking powers—unless you allow the Government to deal in commercial bills of exchange, you can not get the gold. Am I not right?

Mr. WEXLER. Yes.

Senator HITCHCOCK. Is it not true that that power to take gold out of the Treasury exists at the present time?

Mr. WEXLER. For your greenbacks, yes.

Senator HITCHCOCK. And for the gold certificates?

Mr. WEXLER. Yes; for the gold certificates.

Senator HITCHCOCK. We have $1,000,000,000 of gold certificates outstanding and the people are at perfect liberty to go to the Treasury and demand gold for them, are they not?

Mr. WEXLER. Yes.

Senator HITCHCOCK. Then, that does not change the situation.

Mr. WEXLER. That is true. It puts you to trouble.

Senator HITCHCOCK. It always will exist.

Mr. WEXLER. Why do you want to keep on incurring that trouble? Here is another thing that might occur—I do not say that it will occur, but I simply want to call it to your attention: Suppose five or six of the very large national banks in New York, Chicago, or New

Orleans should make up their minds that they wanted to embarrass the Government. They come to your agency in New York and discount with you an aggregate of $50,000,000 of paper. That is good and accepted and under the provisions of your organization you would be perfectly willing to discount that paper. The next day they turn around, take those notes and present them at you window, and ask for the whole $50,000,000 in gold. You could not refuse payment.

Senator HITCHCOCK. They can do that now.

Mr. WEXLER. You would have to pay the whole $50,000,000.

Senator HITCHCOCK. They can do that now.

Mr. WEXLER. But you are giving them the instrumentality.

Senator HITCHCOCK. Well, the banks of the country have already got more than half of the gold-demand paper.

Mr. WEXLER. They could not do that with the gold certificates, however; the only instrument they could do that with is the greenbacks.

Senator HITCHCOCK. The banks of the country already hold $190,000,000 of United States notes, and they could simply present those at the Treasury at any time and demand gold, but they do not do it because they are always good for the gold.

Mr. WEXLER. They do not do it because everything is serene. I am showing that you are giving them the power. It probably never would happen, but, Senator, I wish I had the power of speech to impress upon you the futility and the danger of the Government going into the banking business. Why go contrary to the experience of every other country? In olden times the governments undertook to do all these things. They went so far in Spain as to gild silver dollars. It is fundamentally wrong and unsafe. You should coin money, but you should not issue obligations payable on demand.

Senator HITCHCOCK. We are already departing from European precedents in this bill.

Mr. WEXLER. No.

Senator HITCHCOCK. Is there a single central bank in Europe or in Germany, France, or England that is owned by the banks?

Mr. WEXLER. No.

Senator HITCHCOCK. You propose a central bank which is owned by the banks?

Mr. WEXLER. Yes.

Senator HITCHCOCK. And that is contrary to every European experience. It makes a much more centralized paper than exists anywhere in Europe.

Mr. WEXLER. But they are not under Government supervision. I am not saying that we can adopt the system of any European Government any more than we have adopted the system in England for the purpose of doing business in this country, but I say we can take the principles of their system and study them and adapt them to ourselves, taking the best of them.

Senator HITCHCOCK. Let me draw your attention to the fact that in England, for instance, there are several banks larger than the Bank of England, so that the centralization of power there is comparatively insignificant. They have several banks that have more deposits than the Bank of England has. That is true in France; it is true in Germany. Those banks have no interest in the Bank of England at all. They carry on their business independent entirely of the

Bank of England, but here everything is proposed to be tied up in one organization.

Mr. WEXLER. Senator, if you can prevent the banks from dealing direct with the public I have not any objection to the public owning the stock. The only fear that I have from the public owning the stock is that the public will turn around and say, "We are the stockholders in the bank; we want to do business with the bank in which we have stock," with the result that you are creating an enormous monopoly, actually putting all the banks out of business and having one great big bank monopoly, and it might ultimately result in all this stock coming into the hands of half a dozen men, and you would then have the banking business in the hands of a few men, which you do not want.

Senator HITCHCOCK. Suppose you provide that no man should own over a certain percentage of the stock?

Mr. WEXLER. It might be feasible; but I see no objection to the banks owning the stocks, because what are the banks? The banks are aggregations of individuals who have associated themselves together for the purpose of organizing a bank.

Senator HITCHCOCK. You see no objection to it; but you can find no precedent for it in any European experience.

Senator NELSON. Gentlemen, will you permit me to interrupt you? I do it in a Christian spirit, you understand. We are handicapped in one respect, and that is that we have 7,300 banks of issue—all issuing paper money. That is a condition that is not present in Europe. The question is whether we should freeze out these banks and drive them out of business or not. I suppose this plan of making them stockholders is to give them a chance to live and do business.

Mr. WEXLER. That is the idea.

Senator NELSON. And to carry on the everyday banking business of the country and ultimately, if this plan succeeds, to have but one currency, and that is the currency of the regional banks, but to do it gradually.

Mr. WEXLER. That is the idea.

Senator NELSON. That is, the regional banks will supply the currency and create a credit reservoir for the country, leaving all these little banks free to do the business. I do not want to freeze them out.

Mr. WEXLER. That is the point. If you offer the stock to the country, whom do you suppose would take it? Would not the people take it, who now own the stock of the 25,000 banks of the United States? They have their stock ownership in the banks in which they are now interested. We have in our bank 540 stockholders with $2,500,000 capital. Who owns that bank? Five hundred and forty individuals own it. The bank is nothing but a corporation owned by individuals, and as a matter of fact all of the ownership is in the individuals.

Senator HITCHCOCK. One of the objections to this plan as I see it is that it adds nothing to the bank capital of the United States.

Mr. WEXLER. It adds more than anything you can possibly do.

Senator HITCHCOCK. I am speaking of bank capital. If you allow the outside world to subscribe you bring in additional capital.

Mr. WEXLER. This is additional capital. This $1,000,000,000 we put into this bank is additional capital. In addition to that, take

these reserves which now might just as well be buried in the bowels of the earth for all the good they are doing. You make them a basis of credit. If I buy $250,000 of this stock I do not reduce my capital.

Senator HITCHCOCK. But you will duplicate your capital.

Mr. WEXLER. I have contributed $250,000 of my general assets; not my capital.

Senator HITCHCOCK. But you have not added anything to the bank capital of the United States, whereas if you permit the public to subscribe to the stock of these banks, and the public should subscribe, that would come from other sources and would come into the bank reserves of the United States.

Mr. WEXLER. It would simply be drawn right out of the banks.

The CHAIRMAN. It would be taken out of the deposits of the banks?

Mr. WEXLER. Yes; it would be taken out of the deposits of the banks.

The CHAIRMAN. That is where you get it?

Mr. WEXLER. Yes; and it is not needed. If you will let the banks put this $105,000,000 in, do you know what they will do? They will look over their investments and say "Here is $100,000 worth of bonds; we will sell these and invest the proceeds in this stock. We are now permitted to make an investment which we were forbidden to make under the national-bank law."

We are frequently called upon to take stock in banks started around our country now. We can not do it under the law; but we have a trust company which is not forbidden to do that under the State law and the trust company takes $1,000 or $2,000 of this stock.

Senator HITCHCOCK. Well, it impresses me that there is some powerful reason why the banks of the country want to own this bank.

Mr. WEXLER. The only reason is because they believe that they are the proper people to own it. They believe they are the proper people to manage it.

Senator HITCHCOCK. Certainly they can not be attracted by the 5 or 6 per cent interest.

Mr. WEXLER. No. The only thing that attracts them is the sense of safety in having a central reservoir of credit.

The CHAIRMAN. You mean giving stability to the banking system?

Mr. WEXLER. Yes.

I want to say this to you: That the banking business of to-day is one of the hardest, most trying businesses that a man can be engaged in, for the reason that the banker has a tremendous demand liability with absolutely nothing to meet it with except 25 cents on the dollar. All that the banker wants is the opportunity, the privilege of being able to go somewhere with these time obligations he has and rediscount them so that he can meet the demand obligations when the public wants their money.

Senator NELSON. He wants a reservoir of credit to go to?

Mr. WEXLER. That is all we ask.

Senator HITCHCOCK. But he does not want to go to the Treasury?

Mr. WEXLER. We do not care; but why don't you go into the meat-packing business or the farming business. It would be just as legitimate as going into the banking business.

Senator NELSON. Allow me to make another suggestion to you right there. You bankers are nothing but middlemen; you do not add anything to the capital of the country. All additions to the capital of the country come from the farmers, who produce the crops, and from the manufacturers, who take the raw products, the material, and increase its value. That is the only way in which capital is increased, and you are simply the instrument to place that capital.

Mr. WEXLER. We are merchants; dealers in credit.

Senator NELSON. It is the farmers and manufacturers who make the capital of the country, who add to it, and increase it. The bankers themselves do not add a single dollar to the capital.

Mr. WEXLER. That is true; the more saving and thrifty our people are the more they add to the capital. The more extravagant they are the less they add to the capital. It is a plain proposition.

ADDITIONAL STATEMENT OF PROF. O. M. W. SPRAGUE, OF HARVARD UNIVERSITY, CAMBRIDGE, MASS.

The CHAIRMAN. Prof. Sprague, we would like to hear from you now. We would be glad to have you give a sketch of this proposition, your view of the operation of this bill, and such notes as have occurred to you from your examination of the questions.

Prof. SPRAGUE. This bill is designed to meet certain very serious defects in our existing banking system. These defects are, first, the more or less complete breakdown of the machinery for exchanging checks between different sections of the country in periods of emergency, coupled with partial suspension of payments by the banks; second, difficulties in meeting reasonable requirements for carrying business in the autumn; third, a preference for collateral rather than commercial loans because of their greater real or apparent liquidness, which gives them a lower rate, and finally no means of checking the unwise extension of credit on the part of our 20,000 or more banks.

Some of these defects in our system could be met by means of a Government issue of paper properly secured, subject, of course, to a discount charge. It would be perfectly possible, by means of a Government institution, to meet seasonal requirements for cash. It would also probably be possible by means of such an institution to escape the suspension of cash payments by banks in emergencies, though this is less certain. The Government institution, however, which confines itself to the issuing of notes in exchange for securities deposited by the banks would have no relation, no connection, with the checking machinery of the country. It would not be in position to make certain that the domestic exchanges between different parts of the country would be always kept open.

Something like 90 per cent of the business of the country is carried on with checks rather than with money or currency. The working of this medium of payment depends altogether upon the maintenance of continuous exchanges between banks. If a bank in New England receives a check drawn upon a bank in Indiana, in ordinary course it will be exchanged in Boston or New York against other checks probably drawn on New England which have been deposited in Indiana. When, however, this machinery breaks down, the Indiana check deposited in New England becomes wholly unsatisfactory as a medium of payment. The bank in New England can only take it

for collection, and payment has been in various crises indefinitely postponed.

When this happens we endeavor to conduct our business by means of currency, and naturally there is a dearth of currency, because suddenly we attempt to do not 5 or 10 per cent of the business of the country with currency, but pretty nearly all of the business of the country with currency.

We need an institution in this country which is in close touch with the banks in position to make absolutely certain that in no circumstances whatever shall this check machinery break down. This can only be accomplished in case the banks very generally have deposited balances with some single or group of institutions. Transfers of balances between the banks will then become the means of settling checks drawn on banks in one part of the country and deposited in banks in other parts of the country. The reserve bank or banks through which this business is done will always be in position to insist that such settlement be made regularly because if a bank delays unreasonably in making such settlements it can be properly threatened with deprivation of its rediscount rights.

Senator HITCHCOCK. Do you care to be interrupted?

Prof. SPRAGUE. I do not mind it at all.

Senator HITCHCOCK. You spoke of the possibility of the rediscount bank disciplining another bank. That involves the loss of some independence that banks now enjoy?

Prof. SPRAGUE. Yes. If it is done for a perfectly definite reason—to insure that the bank shall meet its immediate obligations—I can not see that that is depriving the bank of any independence which it ought to exercise.

Senator HITCHCOCK. It is the creation of a new power in the banking world by which one institution can discipline the other, however.

Prof. SPRAGUE. They would be disciplined for that single purpose.

Senator HITCHCOCK. How can you limit the purpose?

Prof. SPRAGUE. That will be in the statutes of the bank, I should suppose. I will come to that later on.

This disciplinary power seems to me absolutely necessary if we are to have any sort of central institution or institutions.

Senator HITCHCOCK. That is really what a central institution means, does it not?

Prof. SPRAGUE. I should prefer to have that one power to all power of issuing notes. I would prefer to run the institution with that power rather than with the power to issue notes, if I had to make the choice.

Senator HITCHCOCK. That is the power to dictate to the individual banks?

Prof. SPRAGUE. To dictate to the individual banks regarding making settlements on checks

Mr. WEXLER. I will tell you how that works: We sometimes send checks to a country bank for collection. It may be the only bank in the town. They keep those checks for a week; we do not hear from them and sometimes they write that they have been lost in the mail, and then there are a few more delays. But eventually we get after them pretty strong and they remit, but they will remit with bills of exchange on the most remote city in which they have money on deposit. Then we try to collect through the express agent in that

town; then the bank pays the express agent in silver, all silver, which costs $3 or $4 to get down. That is the kind of abuse that the professor thinks we ought to have the right to correct.

Prof. SPRAGUE. That is an abuse in normal times; but I regard as of far more importance the breakdown more or less complete of arrangements for settlement in emergencies.

This is my first reason for believing that a Government institution must, if it is to really improve our banking system, engage not only in the issuing of notes but also in deposit banking; it must act whether a private institution, a Government controlled institution, or a Government institution, as the clearing center between banks. This is the arrangement in England. Settlements between banks are entirely made by transfers on the books on the Bank of England and involve no movement of money whatever. An enormous economy of cash is thus secured. I think one result with us would be that in all probability these regional banks would find that during most of the year they would not have any occasion to issue notes.

Senator HITCHCOCK. Is not the situation in England entirely different, because of the fact that instead of having 25,000 banks you only have about 20 banks there with from 200 to 400 branches?

Prof. SPRAGUE. Well, perhaps 65 would be more nearly the number.

Senator HITCHCOCK. Well, I do not remember the number.

Prof. SPRAGUE. The most essential difference between banking in this country and all other countries is our large number of banks, due to the prohibition of branch banking, a prohibition in which I heartily believe. It does make it more difficult to build up any central institution, rediscounting institution, or institutions. It will make it a more delicate matter to arrange for clearing balances; but I see no reason to believe that it is not entirely possible in the course of time.

In this connection, perhaps, I might say a word about the provision in the bill regarding exchanging and taking of checks at par. I hope that we shall reach that point sometime; but I think that to place the burden at the very outset upon these Federal reserve banks of setting up the necessary machinery for handling all checks may prove altogether too much for the management. I believe that some latitude ought to be allowed them. I am rather inclined to favor changing "must" in that paragraph to "may," leaving it to the management of the various Federal boards and to the banks in their districts to develop gradually the necessary arrangements.

There is another reason why a Government institution must enter regularly and steadily in the banking business if it is going to remove serious defects in our banking system. I included at the beginning of my statement among the defects in our banking system the absence of any means of checking overexpansion of credit. This is a country rich in natural resources, with almost innumerable opportunities for development, in which, consequently, enterprise and the speculative spirit is stimulated. There are comparatively few men in business or in the banks who err on the side of caution. Cautious management of 20,000 banks is far less likely than cautious management of 50 or 100 banks. Enterprising management is one of the advantages that we have through our admirable system of local banks, but I think our experience shows that in every period of active business in this country our banks in general have loaned all of the credit which their reserves would support.

If you set up an institution with large powers of further expanding credit in form both of deposits and notes, there will be an enormous pressure upon that institution in periods of active business to loosen up, to make discounts freely when there is no emergency whatever. Plenty of people in the first part of 1907 argued that if banks would only grant more credit or if the banks had only been in position to grant more credit and had granted it, no trouble would have developed. That, I am convinced, is far from being the case. We were in many directions overexpanded, and further additions to credit at that time would have made the conditions worse rather than better. If we are to have an institution or institutions in this country always in position to come to the assistance of banks, those institutions ought to be in position to exercise a certain amount of restraint upon the other banks in the conduct of their business.

This is accomplished in the European countries very largely through the discount rate, but that is not always sufficient. When that does not prove to be sufficient, when the rates of the other banks do not follow the rates of the central institution, the central institution takes money off the market, reduces the lending power of the other banks chiefly by the sale of Government securities in the open market, all of these institutions having supplies of such securities available. By such means as these the central institutions are not only there ready to come to the assistance of the business and the banking communities in real emergencies—they also exercise a very considerable restraining influence over the other banks.

This can only be accomplished in two ways, either the banks in general must be dependent—steadily dependent upon the central institution or the rediscounting institutions, or the central institution must manipulate its holdings of gilt-edged securities.

In London it frequently happens that the banks are to no extent whatever currently dependent upon the Bank of England. Then the Bank of England is unable simply by raising its discount rate to restrain the other banks from extending credit. Then it is apt to resort to the device of selling consols, payment for which in checks on the other banks lessens the resources of those banks.

In Germany the banks are in general rather more dependent upon the loans at the Reichsbank, and by simply reducing its rediscounts it may lessen the lending power of the other banks, though even in Berlin it sometimes happens that the Reichsbank reduces the lending power of the other banks by the sale of German Imperial Government securities.

I see no way in which a Government institution simply engaged in paying out notes could exercise this restraint on the other banks. I should expect that the other banks would rely to an altogether undesirable extent upon their ability to go to the Treasury and get the necessary amount of notes. Accommodation without any restraining power seems to me most hazardous.

Senator HITCHCOCK. Suppose, now, Professor, that implies that this central power might be greatly abused. For instance, it might be used for contraction at one time and thus reduce prices; at another time it might be used for inflation and thus increase prices. It might, in short, control the market.

Prof. SPRAGUE. That raises a very important point, which I might otherwise have overlooked. I do not think that the importance of

publicity in the affairs of an institution of this sort is realized either by the bankers who have urged representation on the board or by those who insist that the board must be entirely a governmental board. There is publicity and publicity. Effective publicity is the publicity that interests the public. There is no institution in the world the operations of which are watched and studied and criticized to the extent that is true of the Bank of England. The business community is interested in every move made by the bank. Its policy is carefully considered in the financial and even in the general press. Everybody who has anything to do with business keeps an eye upon the Bank of England. The same will be the case in this country. I do not care particularly what sort of a central board we have. I believe that the board could not go very far wrong working in the extreme publicity which will surround its every move, and so I do not believe that the power this institution may have over the other banks is in any danger of being abused.

Senator HITCHCOCK. You say it is not in any danger of being abused. There might at one time be a very strong party, a strong element in favor of higher prices, an element which favored progress and prosperity and urged an inflation of the currency, and the board might be subject to that influence.

Prof. SPRAGUE. I fear that very much more than I do anything else, because that is a policy which would probably prove for the time to be popular with the community in general, and I would add that the members of the boards of these banks and of the central board should be chosen primarily with reference to their bumps of caution. They must be exceedingly conservative, because they will have to oppose a very general desire for more credit than it is at all desirable that they should grant. It will be years, I should suppose, before the management of this institution, or any similar institution, can tell exactly what it can do with perfect wisdom and safety and what it can not do. Precedents will in the course of time be established. After the institution has been going 10 or 15 years it will almost run itself.

Senator HITCHCOCK. On the other hand, Professor, the board might for the time being be composed of those who, without any ulterior motive, or disgraceful motive, might be influenced by the thought that prices were too high, the cost of living too great, and they might be of the opinion that by depressing things and contracting credits seriously they would remedy that fault, and they might use that power for that purpose.

Prof. SPRAGUE. The danger I see is to my mind just the opposite. Suppose these institutions had been established four years ago. If properly handled I do not believe that they would have issued any appreciable amount of notes or would have made any large amount of rediscounts up to the present time. During nearly all of the last four years the country has had an entirely adequate supply of credit. During some of this period I am convinced the business community has secured more credit than it was properly entitled to, and a good deal of the proceeds of short-time loans went into bricks and mortar, equipment of all sorts, and this period of contraction of this year has to my mind enormously strengthened the business and the banking situation. It is enforcing a certain amount of liquidation. If we had had an institution such as is proposed there is the possibility that several hundred million dollars more of credits might have

been available than was available throughout the winter and spring. I do not believe that that would have made the present situation stronger than it now is. These are some of the factors that must be taken into consideration in the management of a rediscounting institution, and they are to my mind those which could not be properly judged if we set up an arrangement of Government issues of notes through an institution which would not be steadily in close touch with the banking and business community.

These are my reasons for believing, then, that a bank rather than a quasi bank owned and operated by the Government will serve the purpose more satisfactorily.

I wish now to discuss the first of the modifications which I think it desirable to make in the bill. It refers to the issue of notes.

Senator BRISTOW. Professor, will you just pardon me a moment.

Prof. SPRAGUE. Yes; certainly.

Senator BRISTOW. As I understand you so far, you prefer the central bank idea to any other?

Prof. SPRAGUE. The central or regional bank. I have made no distinction between the two so far.

Senator BRISTOW. Do you think that the system suggested in the bill is as desirable from your point of view as the central bank system?

Prof. SPRAGUE. With some few modifications, I do.

Senator BRISTOW. The principle underlying the two you regard as quite similar?

Prof. SPRAGUE. I think the principle is very similar, but my reason is rather a practical one and it is this: I do not believe that it would be possible to secure the passage of a central bank measure which did not include a very dangerous provision found in the bill of the National Monetary Commission, namely, that the institution must lend at a uniform rate throughout the entire country. Conditions are not sufficiently similar throughout this country to make it advisable for an institution of this sort to lend at a uniform rate. It would be the case of the tail wagging the dog with a vengeance, and that is my reason for preferring a number of regional banks to a central institution.

Senator BRISTOW. You would prefer the central institution, if I interpret your views properly, if that central institution had discretionary power to fix different rates of discount for different centers of the country?

Prof. SPRAGUE. I am inclined to think so, although I do not feel very strongly about it one way or the other.

Senator BRISTOW. That power might be conferred upon the regional banks; that is, a number of these regional banks, so that the rate of discount for one bank would not be the same as that for another bank?

Prof. SPRAGUE. Quite so.

Senator BRISTOW. And in that respect you think that this would be more desirable than the monetary commission's idea?

Prof. SPRAGUE. Very much more so, but you can see that it is hardly a matter of principle, and in 25 or more years it might be perfectly feasible to lend at uniform rates throughout the country.

Mr. WEXLER. Why would you not do so now, Professor?

Prof. SPRAGUE. Rates for loans are now very different in different parts of the country. The banks in certain sections of the country have already rather more funds than they can lend locally. If you make a uniform rate which would be entirely reasonable, in view of

the general level of rates for loans in your section of the country, the South, no loans could be made in New England or the Middle Atlantic States in ordinary times. I believe that the bulk of the business of an institution such as was proposed by the monetary commission would be in the West and Southwest.

Mr. WEXLER. Why should not the minimum rate that it might be desirable to loan apply to the entire country?

Prof. SPRAGUE. In order to secure any business in New England you might have to rediscount at 3 per cent or 4, and you are offering the same rate to Oklahoma banks which I believe frequently secure 8 per cent on satisfactory security.

Mr. WEXLER. But they furnish the same class of security. I see no reason why the people of Oklahoma should not enjoy the same facilities as the people of New England if the people of New England do not need the money. If they did not like the security they would not have to make the loans.

Prof. SPRAGUE. But a rate of rediscount which is so wide a spread as that does not seem to me to be a healthy arrangement at all. It might lower the rates slightly in Oklahoma, but it is not to be presumed that the resources of an institution such as was proposed by the National Monetary Commission would be sufficiently great to permit it to grant enough credit to the Oklahoma banks to reduce their rates to anything like the New England rates. Moreover, it would not be desirable. It is never desirable or safe to largely and rapidly increase the credit facilities enjoyed in any community. Increase of credit facilities should be paralleled by an increase in the permanent wealth of the community, in improved lands, buildings, actories, etc.

Mr. WEXLER. Professor, suppose a rate were made for New England of 3 per cent and a rate for Oklahoma of 5 per cent, would not the natural trend of rediscounts of Oklahoma be toward New England, and thereby by paying them 4½ per cent they would get a profit of 1½ per cent by its operation? The money would naturally seek the lowest money market of the United States. I do not want to interfere with your argument in any way, but I am of the opinion that for the same class of paper the same rate should prevail throughout the United States.

Prof. SPRAGUE. But it does not.

Mr. WEXLER. Then it should not be taken.

Prof. SPRAGUE. Each regional board, knowing its own conditions, having its own funds, and just what its own local situation is seems to me would be a more satisfactory arrangement than a single institution forced to loan at a flat rate throughout this entire country.

Senator BRISTOW. Professor, you spoke of the disciplinary power of the central bank. Do you think that that should be conferred upon the regional banks?

Prof. SPRAGUE. Oh, yes. It is nothing more than a refusal to make rediscounts. Inasmuch as all of these banks must have balances if they are going to secure the rediscounts, it would be a perfectly simple matter for the Federal reserve banks to deduct the amount of checks from the balance of the banks, and this is doubtless the way it will ultimately be done, just as is the case very largely in New York at the present time under what is known as the No. 1 account.

Senator BRISTOW. The regional bank could refuse to discount the paper of a member bank?

Prof. SPRAGUE. For such a cause as I have mentioned; yes.

Senator BRISTOW. In refusing to do that what would the member bank do? Would it have any recourse?

Prof. SPRAGUE. I do not think, for the reasons that I have mentioned, that it should have any recourse. I should think that a provision of the kind I have mentioned would be inserted in the by-laws of those institutions. It might very well be inserted into the statutes, but that might make it a little too rigid and not altogether desirable.

Senator BRISTOW. I do not know whether I fully understand you or not. To what extent would this power of discipline be vested in the regional banks?

Prof. SPRAGUE. Simply with regard to the making of immediate remittances on checks drawn upon member banks. That would be to my mind a proper ground for declining to grant rediscount. That should be perfectly well understood and well known.

Senator BRISTOW. Would you have any other power given to this regional bank to refuse these rediscounts for any other reasons?

Prof. SPRAGUE. Only that which comes in passing upon the paper which is presented for rediscount. Of course such a power goes without saying.

I do not know any other ground for refusing or withdrawing rediscounting privileges, except this most important one, of continuing remittances. And there will be no trouble about it. The reason that remittances have been discontinued in the past is that each bank fears that the other bank will not continue remittances.

Now, in New England, in 1907, under the workings of the country check department of the Boston Clearing House, remittances continued throughout the panic. There was no doubt at that time that a check received by one New England bank on another would be settled at once, in the ordinary course of business. And just because each bank knew the others were doing it, there was no trouble whatever.

But, just as soon as any moderate number of banks begin to delay and refuse remittances it spreads like wildfire, the domestic exchanges break down, and it becomes exceedingly difficult to move goods.

The CHAIRMAN. Well, Prof. Sprague, in the panics of 1893 and 1884, did not the exchanges break to 50 per cent of their previous volume?

Prof. SPRAGUE. Yes, sir.

The CHAIRMAN. That is a fact, is it not?

Prof. SPRAGUE. They were broken also in 1907. In 1873 and in 1893 the exchanges broke, but not in 1884.

Mr. WEXLER. In 1907 you could not get money out of Pittsburgh or St. Louis at $10 a thousand.

The CHAIRMAN. And that made a shrinkage of probably $1,500,000,000 of current exchange, did it not?

Prof. SPRAGUE. Yes, sir.

The CHAIRMAN. What I was about to bring out, was that if this regional reserve bank refused to discount the paper of a bank, for whatever reason it might assign—it might say the paper was not satisfactory, or anything like that—what would that bank do? It would be in a difficult position, would it not?

Prof. SPRAGUE. Yes. The borrower may be confronted by such a situation. So, he also might be if his paper was passed upon by a Treasury board; and I should think that a Treasury board would set up somewhat more rigid requirements than a group of men in a Federal reserve bank conversant with the banking business. They would be able to form a judgment on paper that might be just slightly doubtful, where the Treasury board would hardly be in position to gauge exactly.

Senator BRISTOW. Well, now, Professor, why should not the security upon which this additional currency could be had be defined in the law, so that it would not be left to the judgment or the inclination of a regional bank as to whether or not credit should be extended?

Prof. SPRAGUE. You can not formulate exact legal rules regarding proper security for bank loans or for rediscounts, and if you attempt it you will exclude very much more than would be excluded by any wrong exercise of judgment or of power by the board of a Federal reserve bank that is at all likely to occur.

Senator NELSON. Senator Bristow, can you not see how difficult it would be to lay down a hard and fast rule to determine whether the notes of all the gentlemen in this room were equally good? It is a personal matter that you have to consider in each case; and you can not lay down any hard and fast rule of the law to govern all cases.

Senator BRISTOW. No. That is the objection I have to the short-time paper only being used. I think you can describe long-time securities with sufficient accuracy——

Senator NELSON (interposing). Real estate security and——

Senator BRISTOW. Or bonds, or things of that kind.

Prof. SPRAGUE. That could be done; but in that case one of the purposes of this legislation would be entirely frustrated. Commercial paper would then not be the most liquid asset that banks could hold. Call loans and bonds would continue to be the best and most available asset for the banks.

Now, I believe that the primary function of the bank is to facilitate current short-term operations—to move goods, and to provide funds for goods in process of manufacture and transportation, and so on.

Senator BRISTOW. Well, but that is a small part of the functions which the banks are now performing, is it not?

Prof. SPRAGUE. Yes; but it is a part which occasions variations in the demand for currency and very largely the variations in business activity.

I do not see how you can relate the need for currency to bonds as security, whereas the requirements for currency and credit should be, in my opinion, related to those needs in connection with which credit and currency are used. Now, credit and currency are, in fact, used in moving the crops, and in connection with the various processes of manufacture and sale of products. Variations in the volume of goods entering into consumption or the processes of manufacture naturally call for variations in the volume of credit and currency. If the two things are related, you have a proper connection. Otherwise it is a matter, it seems to me, of guesswork.

Senator BRISTOW. Now, referring to the suggestion which Senator Nelson made, that it would be impossible for a bank board to pass

upon the value of the security of the notes that are given to any bank; I realize that is true. The notes of a bank—the value of them is known chiefly to the officers of the bank which takes the notes. Now, the regional bank would have no information as to the value of that security presented, except the knowledge which it has of the methods of business of that bank, would it?

Prof. SPRAGUE. No.

Senator BRISTOW. Whether or not a note given by John Smith, or Samuel Jones, at Faribault, Minn., is good, the regional reserve bank at Kansas City, or at St. Louis, would know more about it——

Prof. SPRAGUE (interposing). Quite so.

Senator BRISTOW (continuing). Would know more about it than a Government officer, or Treasury establishment somewhere, would it not?

Prof. SPRAGUE. Oh, it would know, on the whole, very much more about the condition of the banks and the conditions in the locality. That is one of the great advantages of the regional board. It is analogous to the system of our independent local banks. If the whole institution is run by a central body, there is grave danger that it will be found necessary to subject managers of branches to exceedingly rigid rules, as is the case in the Dominion of Canada, where the managers of branches have to refer pretty nearly everything that requires any exercise of judgment to the head office. This is an advantage of the regional bank, as it seems to me.

Senator BRISTOW. Does not the national-bank examiner, if he is a competent official, know as much about the safety of a bank which he examines at proper periods as almost anybody else?

Prof. SPRAGUE. I dislike to express an opinion on that point, Senator Bristow. But it is not merely the question of safety——

Senator BRISTOW (interposing). Well, he ought to know as much, ought he not?

Prof. SPRAGUE. He ought to, perhaps, and, with sufficiently frequent examinations, he might. But it is not merely a question of safety; it is a question of policy. The question of rediscounts would have to be determined largely with reference to whether the board believed the amount of short-time credit to be used in Nebraska was excessive or not; whether the people were attempting to do too much development work on the basis of short-time loans; whether they ought not to go a little more slowly in the matter of short-time loans until they had accumulated a little more savings to put into permanent capital form. These are the kinds of problems that will have to be considered by the managers of the regional banks, and even more by the Federal board. They will not have to give so much attention to individual credits, and only a moderate amount of attention, I fancy, to the standing of the different banks.

Senator HITCHCOCK. Well, if the managers of the regional banks—say in any one of these western regions—come to the conclusion that they were going too fast in Nebraska, for example, that they were buying too many automobiles, that they were doing too much building in the cities, and that they were doing too much irrigation work, they would restrict the loans in that region, would they not?

Prof. SPRAGUE. They would not grant additional loans. They would say to these people, "You are going along rather too fast." Or they might grant only a portion of the additional rediscounts desired.

Senator HITCHCOCK. So that it is contemplated creating a new force in the United States to exercise, not only a disciplinary influence on the individual banks, but a restraining influence on whole regions of country—in the judgment of the comptroller?

Prof. SPRAGUE. Oh, not exactly that if the banks in Nebraska, after this institution is established, will have just as much lending power as they have now in the absence of any rediscounts.

Mr. WEXLER. More.

Prof. SPRAGUE. The rediscount will be practically an addition to the existing volume of credit. Now, that is why I contend that——

Senator HITCHCOCK (interposing). Well, that is only attained by reducing the reserve?

Prof. SPRAGUE. That is true. But the reserves will be reduced, taking the practical effect of this bill, as I see it.

Senator HITCHCOCK. Well, you may reduce the reserves by making the banks dependent upon the regional banks, and if the regional bank draws the line you can not get what is provided to take the place of it.

Prof. SPRAGUE. Well, that depends upon how you make the calculations as to the contributions to the capital and the reserve——

Senator HITCHCOCK (interposing). Well, does it not amount to this, then, that instead of having it as it is now, so that where the banks in Nebraska decide, from their resources and the general situation in their locality, what shall be loaned, that power of deciding is transferred to some other town, some other region, where a board sits upon it, and in some secret manner passes upon it and decides it.

Prof. SPRAGUE. That would not be true unless all the lending power were taken away from the Nebraska bank, so that they would have no lending power except what they could get from this regional association.

I have made an estimate, but I have not checked it up since the last changes made in the reserve provisions in the bill; but I reckoned that, perhaps, taking the country by and large, it would be necessary to rediscount about $150,000,000 in order to enable the banks to maintain their existing volume of loans and credits. The changes that have been made since I made up that estimate reduces that amount of rediscounts materially. From my point of view it is altogether desirable that these institutions should use at the outset a moderate amount of lending power without making any net addition to the total volume of credit available in this country. These institutions need to do regularly a certain amount of business; then they will have something that they can use as a means of contraction when the business situation makes it desirable to contract. Or, to put it in a way that is probably more accurate, it puts them in a position to lessen the increase in credits, which would probably otherwise have taken place.

If you intend to establish an institution of vast lending power with no restraining influence, then I think you would simply be passing a measure of inflation. You may decide that you do not wish to set up any restraining influence of any kind, governmental or otherwise, but if you so decide, you ought not, in my opinion, to provide an institution capable of largely adding to the existing volume of credit upon the existing cash reserves.

Senator SHAFROTH. Prof. Sprague, Mr. Forgan, of Chicago, indicated that he thought that the operation of this bill would produce a contraction of credit. Do you accord with his view?

Prof. SPRAGUE. On the assumption that the banks continue to maintain the same ratio of cash to deposits, I in part agree. He failed, however, in his calculation, to take into account the provision regarding savings deposits, of which I think we would find there would be very considerably more than $1,000,000,000. For you should take into account not only the figures in the comptroller's report of deposits in savings departments in national banks amounting to $700,000,000 or $800,000,000, but also a very large amount of deposits against which the banks have issued time certificates. With those included in the savings department, as I expect they would be, I do not think that setting up this arrangement would involve anything like the contraction indicated by Mr. Forgan's figures.

Senator SHAFROTH. Do you not believe that the relation of credits to reserves would be very much increased after these regional banks are established and the right of discount prevailing?

Prof. SPRAGUE. There would be, I think, a lower ratio of reserves to credit liabilities of the banks. But the thing I am concerned about is the amount of short-time credits that is being used in connection with the business operations of this country. And considering the scale of those operations, and the amount of fixed capital employed, and so on, I think that an altogether sufficient amount of short-time credit is now being utilized. Take the particular instance of the last few years: The railroads and other corporations found it difficult to place long-time securities at satisfactory rates, and most of them have been putting out short-term notes, the proceeds of which have gone into fixed investments, and banks have to a very considerable extent taken those short-term notes. The maturity of the notes is comparatively short, but the proceeds of this short-time credit have gone into permanent form.

The CHAIRMAN. That is it.

Senator SHAFROTH. Prof. Sprague, Mr. Dawes, former Comptroller of the Currency, announced in Chicago the directly opposite view, namely, that if this bill were enacted there would be a great expansion of credit?

Prof. SPRAGUE. Well, he was referring—well, both of those gentlemen were referring to exactly the same thing, and not to any increase in the amount of credit. Ordinarily, when one speaks of an inflation of credit, I think one has in mind an increase in the total amount of credit. That is what I understand by that expression. Apparently Mr. Dawes meant simply that the existing volume of credit would be supported upon a smaller foundation of cash.

The CHAIRMAN. And therefore would be inflationary in character but not in amount?

Prof. SPRAGUE. Yes, sir.

Senator SHAFROTH. Now, Prof. Sprague, you mentioned awhile ago, while we had under discussion the bill I introduced, that the legal-tender character of the paper which it was proposed that the Government should issue would be proper, provided a certain quantity only were issued; and if there was a reasonable taking care of the credit by that kind of a currency there would be nothing out of the way—no tendency toward excessive discounts and no runs upon the Treasury or the gold reserves.

Prof. SPRAGUE. I did not intend to include in my statement quite so much as that. I intended to say that the Government could, with perfect safety, and, in my opinion, with propriety, issue that amount of currency which experience shows, at all times, will be needed for use outside of banks for pocket-money purposes.

But I do not believe that, for the varying requirements of the people for currency, those which fluctuate with the seasons and those which vary as between periods of business expansion and periods of business depression—I did not say that those requirements could be well met by a Government issue.

Senator SHAFROTH. Now, Prof. Sprague, what objection is there to the issuing of full legal-tender money—for instance, in this very case, as to these very notes?

Prof. SPRAGUE. Limited in the amount?

Senator SHAFROTH. Oh, yes; limited in amount.

Prof. SPRAGUE. No objection whatever; none whatever.

Senator SHAFROTH. Well, in the case of the bill which I introduced, which provides for the issuance of full legal tender to take up the gold certificates and also to take up the national-bank notes, would you consider that that would be an excessive amount to issue as full legal-tender money?

Prof. SPRAGUE. Practically you would have to take into consideration the existence of the silver dollars and the silver certificates.

Senator SHAFROTH. Take into consideration what?

Prof. SPRAGUE. The silver dollars and the silver certificates make up a part of that portion of the money supply which is constantly in use outside the banks. There are $500,000,000 or $600,000,000 of it. Then there are $700,000,000 of bank notes, and the three hundred-odd million of greenbacks; and then the gold certificates, part of which you would secure—making a total of something over two billions of dollars. That is a larger amount of money than is now out in circulation, or will probably be out in circulation at any time during the next 10 years.

Senator SHAFROTH. Well, that is the amount of money just now that the Government is issuing in some form or another, is it not, whether it is out in circulation or not?

Prof. SPRAGUE. Well, but I restricted my statement to that which is in circulation outside the banks.

Senator SHAFROTH. Yes.

Prof. SPRAGUE. The reason I did that is that whenever there are large requirements for gold—and they are usually for export—the gold is not secured in driblets from the people; it is secured from the banks. It is not secured by taking notes to the banks and asking them for gold; it is secured through drawing against the balances with the banks of those who happen to be engaged in the gold exporting business.

Senator SHAFROTH. The amount of gold, however, that has been imported into this country, while it has varied somewhat, there sometimes being more exports than imports, there has been a net import into this country, ever since 1878, of over $5,000,000 a year.

Prof. SPRAGUE. Yes, sir.

Senator SHAFROTH. Now, it does not seem to me that with the flow of gold through long periods of time being in our favor, there would be much of a demand made upon these notes to be redeemed in gold.

Prof. SPRAGUE. Well, very likely that might prove to be the case, but——

Senator SHAFROTH (interposing). Now, the reason why the Government can not now—or at least, it does not seem to be practicable for it to do so—redeem the silver dollars or the silver certificates, is on account of the fact that the Government would go into a loss right there. If it attempted to issue full legal tender money, redeemable in gold, and melt up the silver, there would be a loss to the Government of $250,000,000 to $300,000,000. And on that account, I have not noticed any suggestion made by anybody, because all of the nations of the world are still using silver money. So that it seems to me that it would not be fair to count that as money. That had to be substituted by full legal tender money. But really, the $346,000,000 of greenbacks are now upon a gold standard.

Prof. SPRAGUE. Yes, sir.

Senator SHAFROTH. And upon a less redemption fund, or reserve, than is proposed in this bill, namely, it is 43 per cent, whereas this bill proposes 50 per cent.

Prof. SPRAGUE. Yes, sir.

Senator SHAFROTH. So that is eliminated to a certain extent?

Prof. SPRAGUE. Yes, sir.

Senator SHAFROTH. And really the only two features that are met in the bill are the substitutions for gold certificates of this full legal-tender money, redeemable in gold, and also to take up the bank notes. And they are being used in commerce as money——

Prof. SPRAGUE (interposing). Well, after the process had been carried through—if it were carried through in its entirety, the reserves of the banks would be practically altogether in this new issue of notes. Then whenever there was an occasion for exporting gold, notes would be taken to the Treasury and exchanged for gold. Now, the Treasury could undertake that function.

Senator SHAFROTH. Well, now, if it took——

Prof. SPRAGUE (interposing). And that is my reason for saying that it is a very much simpler operation for a government to issue simply that amount of notes which experience shows is always required in general circulation. An instance of that is provided by the Bank of England.

When the present system was established in 1844, an estimate was made of the amount of bank notes which, in all circumstances, the people of Great Britain would be using. And that amount of note issue was secured by Government securities. The remainder was secured by gold. They argued, and rightly, that at least this 14 millions—it was then the amount, although it has been since increased—that this 14 millions would always be wanted for making ordinary payments to individuals and could never in any circumstances give any trouble whatever.

Senator SHAFROTH. Well, have you made an estimate of what the amount of that demand in the United States would be?

Prof. SPRAGUE. That demand would probably amount to somewhere between $1,200,000,000 and $1,500,000,000. I should say that it certainly would be as much as $1,200,000,000 and probably more.

Senator NELSON. Do you mean by that it would be constantly in circulation among the people outside the banks?

Prof. SPRAGUE. Yes; although that estimate is made a little uncertain because our estimates of the total amount of different kinds

of money in the country are not exact. Paper money gets destroyed and gold coin is melted for commercial uses and sometimes we do not get any records of it. Our Government estimates of the total amount of money outside the banks are too large, and it may be that my estimate of $1,200,000,000 ought to be dropped by a couple of hundred of millions. I should feel quite certain that there must be 1,000 millions.

Senator SHAFROTH. Well, in view of that demand which the people would have for circulation, the banks are bound to have reserves, and inasmuch as these gold certificates would have been taken up by the legal-tender money and inasmuch as the bank notes would be taken up there would be nothing but gold coin or these notes to act as a reserve?

Prof. SPRAGUE. Yes, sir.

Senator SHAFROTH. And there would be created a demand for an enormous amount, which would——

Prof. SPRAGUE (interposing). Oh, that is perfectly true. There is the banking demand which absorbs all over and above this $1,200,000,000, that I have mentioned.

Senator SHAFROTH. Yes.

Prof. SPRAGUE. This is simply a question of whether we wish to have bank reserves made up very largely as gold, so that any foreign drain of gold will come upon the banks, or whether we wish it to be made up chiefly of these proposed United States notes, in which case the demand for gold would be directed toward the Treasury.

Senator SHAFROTH. Well, in the event that this same amount of gold remains in the Treasury which is now represented as deposits for the certificates—gold certificates—there would not be such a great quantity of gold in the country to go into the banks, would there, and consequently they would have to use to a certain extent some of these full legal-tender notes?

Prof. SPRAGUE. Yes. I think most of their reserves, if the thing were carried through, would be in the form of notes and—unless they declined to present gold certificates for exchange, as they, of course, might do.

Senator SHAFROTH. Well, do you think that the circulation medium as it is now, consisting of the silver and silver certificates and gold and gold certificates, and the bank notes, and the United States notes of $346,000,000, is too large a circulation medium for the United States?

Prof. SPRAGUE. No.

Senator SHAFROTH. Do you think it is ample?

Prof. SPRAGUE. Yes.

Senator SHAFROTH. Do you think it is sufficient?

Prof. SPRAGUE. I think it is sufficient, except for seasonal and extraordinary requirements.

Senator SHAFROTH. Yes. Then, if all of that currency were taken up and replaced by a full legal-tender money would there be any inflation?

Prof. SPRAGUE. Oh, it might happen that what is sufficient now would be rather more than sufficient next year.

Senator SHAFROTH. Yes; but that might occur also under the present state of the currency?

Prof. SPRAGUE Yes; but under the present state—or under the proposed bill—banks are responsible for providing the gold; whereas to the other case the responsibility would be transferred to the Treasury.

I do not regard your proposal as a matter of fundamental importance. I think it could be done; but our banking system would be no stronger. Our banking machinery would be just as likely to break down in the next period of emergency, with suspension of payments, the breaking down of the domestic exchanges, and all the rest of it.

Senator SHAFROTH. Do you not think that the 50 per cent reserve, with the powers vested in the Secretary of the Treasury, directing him to purchase gold, if necessary, and to issue bonds, if necessary, in order to maintain the parity—do you not think that that would make a currency that would never go to a discount?

Prof. SPRAGUE. I think that is perfectly true. But is does not improve or change appreciably the banking situation.

Senator SHAFROTH. Yes.

Prof. SPRAGUE. It is purely a monetary change.

Mr. WEXLER. And has no special value.

Prof. SPRAGUE. It is nothing more than that.

Mr. WEXLER. Mr. Chairman, I would like to get something into the record which the committee of bankers designated for me to take care of. It will not take over five minutes, if the committee will permit me to do it.

The CHAIRMAN. Do any of the members of the committee desire to ask any further questions at this time?

Senator SHAFROTH. No, Mr. Chairman; I have none.

Senator BRISTOW. I have some questions which I should like to ask Prof. Sprague. Will he be here Monday or some other day?

Prof. SPRAGUE. I can be here Monday, if the committee desires my presence.

Senator SHAFROTH. We would be glad to hear you further.

The CHAIRMAN. Well, on Monday the committee will be very glad to have you continue your remarks; they are very interesting.

Senator SHAFROTH. Yes; they are.

The CHAIRMAN. There are many things that I should like to ask you in regard to this matter, Prof. Sprague, and with regard to the principles which are involved in this; and if it will suit your convenience (it is now nearly 6 o'clock), the committee will hear you further on Monday. Will it be the pleasure of the committee to meet at 10 o'clock on Monday morning?

Senator SHAFROTH. I think it will be better to meet at 10 o'clock.

The CHAIRMAN. On Monday we will meet across the hall, where we met the first few days; but this room will be subject to our use later on.

ADDITIONAL STATEMENT OF SOL. WEXLER, VICE PRESIDENT OF THE WHITNEY CENTRAL NATIONAL BANK, OF NEW ORLEANS, LA.

Mr. WEXLER. Mr. Chairman, there is one of the suggestions made by the conference of bankers at Chicago, which I was designated to call to the attention of this committee, which I have not had an opportunity to present.

That suggestion relates to the manner of giving the Federal reserve board the right to designate any city as a reserve city or a central reserve city, or to change any city from a reserve city or central reserve city, and designate any bank in any such city as a country bank or a reserve bank, as the case may be.

And the findings of our committee at Chicago were to the effect that the present law is entirely adequate, in that it provides that three-fourths of the banks in a city which may desire to become a reserve or central reserve city may do so with the consent of the Comptroller of the Currency and the Secretary of the Treasury.

Now the Federal reserve board should take the same privileges that the Comptroller and the Secretary of the Treasury now have; but the cities themselves should certainly have some voice as to whether or not they should be made reserve or central reserve cities, or as to whether or not that privilege should be taken away from them. It would give to the Federal reserve board, as the bill is written now, a tremendous power to favor its friends and punish its enemies, in individual cases of banks.

Senator SHAFROTH. Mr. Wexler, are you going to be here next week?

Mr. WEXLER. I will be here all day Monday. I will be engaged upon other matters in the forenoon of that day; but I will be here in the afternoon.

The Senator from South Dakota was very particular in inquiring whether, if a small country bank went into the system, it would make more or less money. I have that worked out for him.

The CHAIRMAN. You can put any exhibits into the record that you desire upon the subject, Mr. Wexler.

Mr. WEXLER. All right, Mr. Chairman, Thank you very much.

The Senator from South Dakota took particular interest in the result, from the standpoint of profit, of the country banks coming into the system under the proposed bill.

A careful calculation shows that there would be no difference in the net profit of such a bank under the proposed bill from what it is at the present time; the calculation based upon a bank with a capital of $25,000 and deposits of $100,000. In reserve cities, based upon a capital of $1,000,000 and deposits of $5,000,000, such a bank would earn $6,500 more, or about 0.6 of 1 per cent on its capital than it earns at the present time.

From both of which calculations it is evident that, from a profit standpoint, there is neither any special inducement to come into the system, nor any particular reason to remain out of it.

The American Bankers' Association, by which this committee was appointed, is composed of 14,000 members in every State in the Union; and it is believed that the suggestions made by the committee directly represent the sentiment of practically all of these banks.

They represent a total capital investment of $15,000,000,000, and certainly can be recognized as a powerful and influential factor in the general business of the country; and their experience and standing should be taken into account in the consideration of the suggestions that have been made.

The management of the association is under an executive council, composed of 1 member for each 200 banks, selected by each of the States, and is therefore thoroughly representative of every State and every section of every State in the Union.

(Thereupon, at 6 o'clock p. m., the committee adjourned until Monday, September 8, 1913, at 10 o'clock a. m.)

MONDAY, SEPTEMBER 8, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Owen (chairman), Reed, and Shafroth.

The CHAIRMAN. Mr. Allen, the committee will hear you now.

STATEMENT OF WILLIAM H. ALLEN, OF BROOKLYN, N. Y.

Mr. ALLEN. Mr. Chairman and gentlemen of the committee, I am here to offer a few remarks upon the subject of this bill, and to ask that there be a further investigation into the subject.

At the last meeting of this committee the remark was made that this currency question was a subject on which bankers and students of finance only could be expected to have a knowledge and that the proletariat could hardly be expected to know much about it.

Well, that may be true as regards some features of it. And then there are other features, not the least important of which one may with zeal and industry acquire a knowledge, even though he may belong to the humbler portion of the proletariat—that humbler portion of which it has sometimes been said that it takes nine of them to make a man.

The particular object I wish to speak of is in regard to the concentration of money in New York. You are all aware that that is the main subject. Some think that it ought to be circulated all over the country. Some think it is a good thing to have it concentrated in New York. Well, I think it ought not to be concentrated in New York—not so much. I think it ought to be scattered all over the country. However, I am not here to state of——

Senator SHAFROTH. Mr. Allen, where do you live?

Mr. ALLEN. Brooklyn, N. Y.

Senator SHAFROTH. What is your occupation?

Mr. ALLEN. I come from the land of Gaynor.

Senator SHAFROTH. What is that?

Mr. ALLEN. I live in the same town as Mayor Gaynor.

Senator SHAFROTH. Well, I say what is your business, please.

Mr. ALLEN. Well, I was in the clothing business for a number of years.

Senator SHAFROTH. And have you lived in New York all of that time?

Mr. ALLEN. Well, most all the time. Now, I have only half an hour to speak here and can not enter into family history.

The subject which I propose to speak on is the fact in regard to the concentration of money in New York. The Aldrich plan, and the plan of the American Bankers' Association, is founded upon a certain theory of this concentration of this money in New York. It assumes that after the harvest is moved country bankers have a surplus of money which they send to New York to invest in 2 per cent call loans, and then in the following fall of the year about $200,000,000 has to be recalled to move the harvest, and they assert that it is the recall of this money which causes high rates for money, upsets business, and

produces panics. It is alleged that it was the recall of about $200,000,000 in 1907 that caused the panic of that year. That theory seems to be universally accepted, not only by the advocates of the Aldrich bill, but also by those who advocate any other system of currency reform.

Well, the point is, have you looked into it? Has any man ever come before this committee and proved to you satisfactorily that if money rates—that the $600,000,000 sent here in New York, where it is loaned at 2 per cent, has been sent on from the far West and the South, where the rates are 6 per cent? And who has shown you that it takes $200,000,000 from New York in August and September ber to move the harvest? Has anyone here shown it?

This $200,000,000 is supposed to be sent to New York in the first two months, when the harvests are heaviest in average years, and it is about $18,000,000 a week. Around the first week in September the movement is supposed to be the heaviest. I have here last week's New York Tribune, of September 6. It is an announcement of the movement between New York and the interior. It says:

A loss in cash of $1,500,000 by the New York banks is indicated by the reported movement of currency this week. The banks received from the interior $11,632,000 and shipped to that point $9,763,000, which included $2,784,000 national bank notes sent to Washington for redemption.

Well, I do not understand that "bank notes sent to Washington for redemption"——

Senator SHAFROTH (interposing). They are not redeemed; they are just sent in and full legal-tender money is sent to the banks to be put in their reserves, and this currency——

Mr. ALLEN (interposing). Well, I am taking the movement as indicated here.

Mr. WEXLER. It goes back all over the country. When it comes to Washington, it is sent to the bank whose name it bears.

Senator SHAFROTH. Oh, yes.

Mr. ALLEN. Well, this money is announced here as sent to Washington for redemption, and whether it comes back to New York or not I am simply saying it is not sent from New York to the West. It is sent to Washington for redemption.

Senator SHAFROTH. Yes.

Mr. ALLEN. Now, even with that it shows that in place of losing $18,000,000 a week the past week New York actually gained on the interior. Furthermore, New York has actually gained in every one of the last six weeks, right in the harvest season, when the advocates of this Aldrich theory assert that it was the other way.

Now, furthermore, last year the banks of New York in those two harvesting months actually gained $20,000,000 on the interior. In 1911 it was almost the same; they gained $24,000,000. They also gained in each of the next three months—for October, November, and December.

So you see the theory is ridiculously false to begin with. The whole theory of the Aldrich plan is based on the assumption that New York loses $200,000,000 in currency in August and September.

The report of the monetary commission shows that—

we have allowed $200,000,000 for the natural expansion of currency for seasonal or crop-moving demands.

Mr. Vreeland estimated the amount sent from New York as between $200,000,000 and $300,000,000. That is his figure. And it is supposed to be sent out in August and September. The Aldrich plan, you might say, is based on the theory that the panic of 1907 resulted from the loss of $200,000,000 to the interior banks in August and September.

On this point Lyman J. Gage says—

> Such a crisis was reached in the early autumn of 1907; it was precipitated by calls from the interior to remove the crops. Responses to those calls weakened the foundations of the reserves of the New York banks.

There could be no misunderstanding about that.

To the same effect is Hon. William B. Ridgley, Comptroller of the Currency, in his report to Congress, December, 1907. He says:

> Is it any wonder, then, that the demand in the fall for about $200,000,000 in currency to move the crops always causes a disturbance? It was directly and immediately due to this that the crisis of October, 1907, assumed the phase of a bank panic, and spread all over the country.

Well, now the reports of the movement of money here indicated show that in August and September New York only lost $8,700,000. That is, including the bank notes sent to Washington for redemption.

After you deduct that, as I think you should, New York actually gained a little over $1,000,000.

Senator SHAFROTH. Well, but you know the United States Government immediately sent back to New York the quantity of bank notes they sent down here, but sent it in legal-tender money.

Mr. ALLEN. Well, I understand that part, my dear sir.

Senator SHAFROTH. Well, then, I want——

Mr. ALLEN (interposing). But I simply say it was not sent West.

Senator SHAFROTH. Yes.

Mr. ALLEN. It was not sent West. If it was sent to Washington for redemption, it was not sent to the West to move the harvest?

Senator SHAFROTH. That is right.

Mr. ALLEN. Then, there is no dispute about that. Well, Prof. Sprague——

Senator SHAFROTH (interposing). For that reason I did not think that any factor of a redemption of notes should be taken into consideration by you at all in determining the flow of money from West to East.

Mr. ALLEN. Well, but I am simply reporting the things as they are.

Mr. WEXLER. Have you taken into consideration subtreasury transfers from New York?

Mr. ALLEN. Well, I am taking into consideration the figures as I see them. If you can show other figures, all right.

Prof. Sprague in his History of 1907 shows that there was no serious monetary shortage in New York during August and September, and the banks in August, 1907, were in slightly better shape than in August, 1906. The surplus reserve was larger in August, 1907, and although there was a slight loss, it was increased somewhat in the two months before the beginning of the panic.

Such testimony, along with the figures of the currency movement, is of itself enough to show that this whole theory of the cost of our financial illness in August, 1907, and later years is wholly false.

Now, in relation to inelastic currency, the theory that harvest movements are the cause of our financial illness forms the basis for

all the talk about inelastic currency. On this point, Mr. Vreeland says:

> Agricultural crops of this country average about seven or eight billions a year They are harvested in the late summer and fall. This means that we need a very much larger amount of money in the fall than in the spring. This is why we need several hundreds of millions more in the harvesting season. There is where we need elasticity in our currency system.

Another authority, Mr. A. B. Hepburn, speaking of an inelastic currency, says:

> Currency must be provided to move the products of the farm and the factory to the markets of the world in order that the return prices may meet and extinguish local demands.

Mr. Hepburn leads us to assume that if we issue, say, $200,000,000 extra currency to move the harvests, after the harvests are moved, the markets of the world return prices will meet and extinguish local demands, and the $200,000,000 will be redeemed.

It is a very plausible argument, but it has this fatal defect: After we have shipped our goods to the markets of the world, we do not receive the cash in return. There are no return prices, as Mr. Hepburn very well knows. Last year we exported—our excess of exports amounted to $581,000,000. Did we receive that amount of cash? No, we did not, and have not for a good many years. On the contrary, right at the end of the year we began to ship gold to the other side; and if you include the silver, as it ought to be—although some will not admit this—if you include silver exports, we have actually lost more in the last 15 years than we have gained from Europe.

Senator SHAFROTH. Well, do you not account for that by the expenditures of tourists over there in Europe, and also the payment of interest charges due to the other side?

Mr. ALLEN. Yes. Well, if you will allow me, I am coming right to that point. Here is a great secret that is halfway held back in our argument for currency reform: They never argue that point that you have mentioned. You never hear it in arguments about currency reform.

Now, I want to explain my idea of it, and that is one reason why I am here. I am not offering a theory; I am simply furnishing you some facts and showing the need of further investigation.

As between the Aldrich plan, or the American bankers plan, and the plan that is favored by this committee, I favor their plan, the plan that is favored by this committee. But, still I think we ought to have the facts in the case.

My argument is, that the reason we did not receive any cash in return was that these debts for interest, dues, expenditures of American tourists abroad, and immigrants' remittances, the cost of ocean freights, and other items, offset our debts; offset them, I claim, by over $500,000,000. The debts are estimated now at between—well, estimate them as low as $653,000,000, or about that. Others estimate them at $1,000,000,000; others estimate them at $1,500,000,000.

Senator SHAFROTH. You mean the debts which Americans owe Europe?

Mr. ALLEN. Yes; all the debts for all these items every year.

Mr. WEXLER. You mean the debts that they owe us?

Senator SHAFROTH. No; which we owe them.

Mr. WEXLER. The debts which we owe them?

Senator SHAFROTH. Yes.

Mr. ALLEN. They do not owe us anything for tourist expenses or interest dues or immigrant remittances. There are no American immigrants on the other side.

Well, I claim that the debts are at least over $1,000,000,000. The money in settlement of these debts, the immigrant remittances, tourist expenses, and the like, comes to New York from all parts of the country and finds its way into the foreign banks in New York; or the international banks that are controlled by Morgan, Kuhn, Loeb & Co. and other international houses.

Here is an item from the Wall Street Journal that helps to explain it:

> Exchange with New York is fairly strong, and at most places is at the point which calls for the shipment of currency to New York. A considerable part of the inquiry for remittances in the foreign exchange market comes from the interior cities, and cash has to be sent here for the purpose of exchange.

This money, as I say, goes into the private foreign banks and the national banks with foreign connections, such as the National City Bank, the First National Bank, and the Chase National Bank. They do not ship the gold to Europe. If they did, we would have a panic every year. They reinvest it, or, rather, they borrow on the other side, to avert the shipment of gold to Europe. They reinvest part of it in our securities permanently, and if they can not invest enough permanently, why, they buy short-time notes on the other side.

I do not profess to understand all the technique of this matter; but that is the substance of it. We borrow abroad to avert exports of gold. Some times, they say, we borrow it to carry on circulation. But the first original cause of it is that we borrow to avert the export of the gold to Europe.

If we exported half of what we owe in Europe in a year, we would have panic, and it would hurt the big borrowers more than anybody else. So they seek to avert the export of gold for their own interest.

I have numerous extracts to that effect, which I can show you if necessary; but it would occupy too much of your time to read it out.

Now, part of this money that is held in New York is reinvested in loans, loaned out in Wall Street, and in loans to other banks. And I say that that is the money that is concentrated in New York. Money that belongs to foreign bankers, and the West and the South never owned $1 of it. There are the $600,000,000 a year. They say, the theory is, you know—that they send it on to New York, after the harvest is over—that is the theory which you hear exploited in the bankers' conventions and everywhere else. It is not sent to New York after the harvests are moved, to be recalled when the harvest has to be moved again. But, somehow or other, it remains in New York all the year around. There is no recall of it. There has not been a recall of any such sum as even $100,000,000 for the last 13 years.

And according to the facts, as I understand them, the movement out from New York is less every year. Why, even the reports of the Government admit that much, and if they catch on to anything, why, other people ought to do so

So far as I see——

Mr. WEXLER (interposing). Do you contend that our net debt to Europe is over one billion dollars?

Mr. ALLEN. Yes.

Mr. WEXLER. The records do not show it. The balance of trade is in our favor. What becomes of all of our cotton, and wheat, and corn that we export to them? What becomes of the money paid for that?

Mr. ALLEN. When you were speaking here last week I allowed you to proceed without interruption.

Mr. WEXLER. I beg your pardon; I merely wanted to get light as to your views on the subject.

Mr. ALLEN. And I ask the same courtesy from you.

The CHAIRMAN. All right, Mr. Allen. Mr. Wexler thought it would be better to ask you a question on that point while you were discussing it.

Senator SHAFROTH. Yes; Mr. Wexler doubtless thought it would be agreeable to you.

Mr. WEXLER. Yes; I had no intention of being discourteous; I thought it would be agreeable to Mr. Allen.

Mr. ALLEN. When my statement is over, I will be willing to argue the point with you.

The CHAIRMAN. Mr. Allen, the committee will permit you to submit any notes or memoranda that you want to, in case you desire to supplement anything that you have said.

Mr. ALLEN. Well, if I can not convince you by what I say that the subject ought to be investigated, I do not know that it would be worth while for me to submit anything more.

Now, in relation to this $600,000,000, we are all aware that in the last seven months there has been a considerable stringency throughout the country. Some time in April the Secretary of the Treasury went so far as to lend $8,000,000 or $10,000,000 to the banks, and offered to put into operation the emergency currency law.

Can you make head or tail out of that? At the time that the Government loaned this $8,000,000 or $10,000,000 to the banks, they made the first reported effort to see that it should not find its way into Wall Street to be used for speculation; and for that purpose he put it in the banks of the West and South, and it had hardly got out of his fingers before it made a bee line to New York; and the first thing we read of was that it was used to make money easier in Wall Street. Afterwards it was reported that some of it was shipped to Europe. It is hard to believe that any western farmer or any western banker was sending his money on to New York under the conditions that have existed all over the West and South in the last six months, and yet in this last five weeks or the last six weeks, right in the midst of the harvest season, we find that New York has actually gained in theory about $30,000,000; that is to say, in place of receiving over $100,000,000 from New York, the West has actually shipped $30,000,000 to New York. I do not think that is consistent with the Aldrich or the Vreeland theory, whichever you call it; and that is only consistent with the fact that this money comes on here in the settlement of these foreign debts. I think that that is the only reasonable explanation, and it is these foreign debts, the absorption of currency in settlement of these debts, that is the main cause of our financial stringencies and the panic of 1907.

I do not want to take up much more of your time.

And he also announced that, if necessary, he would deposit $50,000,000; and all this time, mind you, New York is supposed to have $600,000,000 belonging to the farmers of the West. It is always supposed to be really the farmers' money, you know, as distinguished from money that comes from the banks of the West. This money has remained here in New York when rates here were as low as 2 per cent, and I have seen that when rates were as low as 1 per cent, while they were 6 per cent in Chicago and higher still further west.

At the conference in Washington here, where the delegates from the American Bankers' Association were conferring with the Government officials in relation to the loan of $50,000,000, a suggestion was made that the western banks ought to be made to recall the loans that they had in New York, and a number of the bankers at the conference said that if such a rule was enforced they would have to give up to outside banks some $600,000,000. Well, now, consider the absurdity of that. If they get $600,000,000 in New York, why should they be asking the Government to lend them $50,000,000? Where is the sense in it? Why should we lend it to them? Why should we not insist that they take at least $50,000,000 from New York?

About the same time Senator Tillman accused the New York banks of refusing to loan money to the South, and the New York banks replied to the effect that they were lending, that they had been lending all along, and that they were lending more than that at that time; and yet at that same moment, according to the bankers' theory, the South has a part of the hundreds of millions loaned in New York.

The CHAIRMAN. The bell has just rung for a vote, Mr. Allen, and you have a little more than 30 minutes now.

Mr. ALLEN. All right.

In an address to the New York Credit Men's Association last January Mr. J. R. Forgan, of Chicago, said that in the last 60 days the banks of the country had passed through a season of the tightest money since 1907, and if anything had happened to cause things to blow up we would have had another panic like that of 1907. In this period of 60 days there was not a national bank in the country that kept up to its full legal reserve. Later on the situation was so serious the Government was forced to lend some $8,000,000 or $10,000,000 to various banks in the West and South to avert a panic.

It is now generally conceded that the money situation of the past nine months, which almost terminated in a disastrous panic, was chiefly due to the exports of gold at a time when we should have been importing the metal for our exports of merchandise.

This gold went abroad in settlement of these foreign debts, and these debts are the chief cause of the concentration of money at New York and the resulting financial ills. It has been shown that the panic of 1907 was not due to the recall of interior loans. It remains to be shown that it was due to the absorption of cash and gold exports in settlement of these foreign debts.

For years prior to 1907 we had been selling and pledging securities abroad to avert export of gold on this account. In May, 1906, the London Economist estimated that we then owed Europe alone about

$500,000,000. In October of the same year the financial editor of the New York Times estimated all foreign borrowing at $750,000,000. At the beginning of 1907 the Paris correspondent of the Evening Post claims that we owed about $600,000,000. At the same time the banks of Canada reported having $82,000,000 invested in call loans at New York, and the Bank of Japan had $60,000,000 loaned. So that our total borrowings footed up to $740,000,000, or about the same as the financial editor of the Times had estimated them at two months before.

In an article in the North American Review, Mr. C. A. Conant stated that in 1907 the monetary system broke down and our banks suspended currency payments because the gold reserve of the country, amounting to $701,000,000, was so hopelessly subdivided among the banks as to be utterly useless.

This is an argument for a central bank, to hold all the reserves of the country. It aims to show that the panic resulted from the failure to have this $701,000,000 concentrated in one bank.

Well, in opposition to this view, I hold that every dollar of this gold really belonged to foreign bankers. It was our gold which they had received in settlement of these foreign debts, and we had borrowed it back. It was this foreign grip on our gold stock which resulted from these foreign debts that finally caused the panic.

In concluding this argument I would suggest to the committee the necessity of further investigation of this matter in order to obtain more definite information regarding these foreign debts, temporary and permanent.

The London Economist puts our English investments in this country at $9,000,000,000, the yearly interest on which is $450,000,000. Other foreign investments here are placed at $3,000,000,000, the yearly interest on which is $150,000,000. Our cost of ocean freights is $150,000,000; total yearly indebtedness, $1,200,000,000. This would make these debts $200,000,000 more than the amount estimated by James T. Talbert, vice president of the National City Bank of New York.

I would also suggest the need of locating the real ownership of the amounts held in New York banks which they report as being "due other banks." Advocates of the bankers' plan of currency claim that the $600,000,000 now in New York banks belongs to interior or country banks, while I hold that it belongs to foreign banks. They received it in settlement of these foreign debts. It is this drain that is the main cause of financial disturbances in the United States.

I thank the committee for hearing me.

LETTER TO THE CHAIRMAN OF THE COMMITTEE FROM J. H. DAVIS, OF RICHMOND, VA.

AUGUSTA, ARK., *September 5, 1913.*

Hon. ROBERT L. OWEN,
Washington, D. C.

DEAR SIR: Your message has just reached me here in Arkansas inviting me to a hearing before your Finance Committee. The time named is now so far spent I can not reach Washington, but thanking you for your kind invitation I write you this letter giving my views.

If it reaches you in time I shall feel grateful if you will read same to your committee with my respects.

The hope of civilization, permanent peace, and progress depends on issuing currency on the productive industry and not the debts. To issue on the debts gives the creditor class a double deal in the business world, sets a premium on debt, distress, and decay. This currency issued on the debts of the people in their collective capacity, Government, State, county, city, and the corporation bonds and other commercial debts held against the people going to the creditor class at cost, organized as banks, they reloan to the people, thereby drawing double interest, and also have power to control all enterprise, all employment, all progress, because they control the money—its life blood.

This is not only un-Democratic but is unscientific, unsound, and a perversion of every law of justice, and a surrender of governmental sovereginty to private greed.

When a government issues its currency upon debts, either governmental or commercial, to increase the volume of currency, they must increase the volume of debt. Thus, like the "bottled caterpillar," they devour themselves. Consult Jefferson, Jackson, Calhoun.

Issue at least half our currency to the States, counties, and solvent cities for internal improvements, and on productive industry and agriculture.

Two-thirds of our people have no assets to coin into currency. They do all our labor and conduct most of our business; they man the ship of state from pilot house to coal bins in the bottom, but do not own it. The owners are in a palace on shore.

To issue all money to these owners, is not only injustice but unmitigated outrage. God's "decree of title to property" was based upon production. The well belonged to Jacob because "Jacob digged it." But the places to "dig" are now all chartered, foreclosed, and shut out from humanity by law, and the privileged few have plastered the earth with ruinous and enslaving debt, control all money, all avenues of industry and progress, limited only by that cupidity and avarice which finally make an intolerable tyrany over the masses. We get our rights from God and not from governments. "Governments are instituted among men" to secure these rights and not to destroy them.

It is an undisputed truth that whoever controls the money of a country controls its destiny. This is fundamental. If this is a people's Government the people should control the money. It will be fatal for the Democratic Party to deny or evade this fact.

Jefferson contended that public debt was a public calamity; a curse giving aristocracy a power to absorb the labor and wealth of the masses and enslave posterity by a legal debt made to consume their labor before they were born.

Hamilton said:

Public debt was a public blessing affording a basis for banks, and an ailment for business to feed on.

Thus the great issue was joined.

If public debt is a public calamity, then to issue the currency to the debt holders is to double the cruelty of that calamity.

The conviction is settled in America that there is "a money power" which, in league with other great corporations, has formed an in-

visible but irresistible tyranny of wealth; that it tramples on law, custom, decency, and honesty without scruple; and has created a system of quiet alluring and seductive methods by which it sways and controls our Government.

The Democratic Party and patriots of all parties have charged this from 10,000 rostrums. Printers have put it on millions of pages of our current history. Recent revelations have confirmed its truth. The average Democrat was taught to believe and believes now that this mighty and malignant power is the founder and father of the whole scheme of asset currency. And when they hurled from power Aldrich, Cannon, and the Republican Party they felt they were freeing themselves from the entire "Aldrich asset currency crowd."

I look in vain for some pledge, platform, or speech by one of our leaders that commits the party to the asset plan of currency. I find 10,000 invectives against it by Democrats and not one suggestive sentence in its favor, and as a plain, common citizen I make bold to ask your committee to point to some pledge or platform that commits our party to this system.

Now, Senator, some of your committee may consider this message as the fulminating fumes of a foul mind, the diatribe of a demagogue. If so, let me quote from one of the grandest of the sons of earth. Thomas Jefferson, in writing to Madison, said:

> Public debt is a ruinous system, which has armed despots with a means to enslave and plunder their fellow man.

In writing to William B. Giles, speaking of Hamilton's money system and its devotees, he said:

> A government of an aristocracy founded on banking institutions and moneyed incorporations riding and ruling over the plundered plowman and beggared yeoman.

Can it be considered by candid men—Democrats—that when our fathers forbid the sovereign States from emitting bills, issuing currency, that they expected their posterity to create a lot of commercial corporations and give them power to emit bills—issue and control our currency. If so, listen to the following language spoken by Jefferson, the founder of civil liberty, to Washington soon after Hamilton had "steam rolled" his first bank and bank bill through Congress.

> My wish was to see Congress cleansed of all persons interested in banks and public stocks and a pure legislature given us.

Again in writing to R. H. Lee, then in Congress, the great Jefferson said:

> Certainly no nation before ever abandoned to the avarice and jugglings of private individuals to regulate according to their own interests the quantum of circulating medium for the nation. * * * yet this is what has been done and will continue to be done unless stayed by the protecting hand of our legislature. The evil has been produced by this ruinous machinery of banks, and justice, wisdom, duty, all require that Congress interpose and arrest it before the schemes of plunder and spoliation desolate our country * * * Without this interdiction we shall have the same ebbs and flows of medium and the same revolutions of property (panics) to go through with every 20 or 30 years.

Now Senator, supported and nerved by these quotations and a thousand more I might give from Jefferson, Jackson, Calhoun, Benton, Clay and scores of our grandest men, I want to talk freely.

If the present Owen-Glass bill had been published before election as the Democratic position on the money question we would never have carried a Western State—Roosevelt would now be President.

Our whole system is inherently wrong and you are building a pyramid with the little end down. It is doomed to fall at recurring periods causing untold distress. You are giving the creditor class through the banks control over the dearest interests of our people—the money. You throw the gold of our country into idle vaults, and then turn and coin the misery and misfortunes of our people into paper money for their creditor masters.

A campaign for increased and inflated debts of every character will follow the passage of your bill, and bonds for every conceivable enterprise—by States, counties, cities, school districts, road districts, irrigation districts, reclamation districts—will pile into billions, and thousands of corporations will come up like Jonah's gourds, in a night's time, to issue bonds and stocks to be used as "prime paper" as a basis for asset currency.

The inherent wrong of an asset currency would be greatly relieved and the measure as a whole would be a vast improvement on present conditions if you will divide your total issue into, say, four volumes—giving the creditor and commercial class one-fourth on their assets, the States, counties, and solvent cities one-fourth on their bonds for internal improvements; the agricultural class one-fourth on storage certificates; the farm and home builders one-fourth on land and home mortgages—all at the same cost. It would put all our real progress beyond the control of avarice and sordid speculation and would see millions invested every year for public internal advancement and not for private gain and corporate greed.

The much-maligned Henry amendments lay down a correct principle and point you in the right direction, to which should be added a home and farm loan system for rural farm homes. Not a mortgage-plaster skin game, to send them to the banks, to pay usury to the creditor class; but recognizing that the independent home is the surest foundation of a free people and that civilization begins and ends with the plow; make a companion bill enlarging the Agricultural Department with a bureau through which the home builder could get this money at the same rate the banks get it, by mortgage on a specified quantity of land with a specified pattern of a house and home on it, after the manner of building and loan associations.

Banks are public institutions created for public good and not for private greed. The people who run them being public agents, it is absurd to say that the Government has no right to control them in their relation to the public by such laws as will best prevent partiality, plunder, and extortion.

The money power has run riot over our country long enough; they have plunged us in panics and made millions out of our misfortunes. They have bound us to a golden chariot in which they ride and rule in royal splendor. They smudged, burned, and destroyed 600 millions of greenback dollars, the money that saved the Union and crushed the Confederacy, and issued bonds to take its place as a basis for bank currency, and had the shameless audacity to label this act of perfidy under the libelous term, "An act to strengthen the public credit."

Having burned our greenbacks like pirates burn a ship they then funded all our national debt, which the patriotic Lincoln had written payable in "lawful money," into a coin debt; then to cajole the people and conceal their crimes they called this act of treachery "specie

resumption." So fearful were they that they might be overtaken in this act of infamy they specified that the bonds should be paid in coin of the then standard weight and fineness, which meant a gold dollar with 25.8 grains and a silver dollar with 412½ grains.

Still longing for more power to plunder they then came forward in a cold-blooded conspiracy and struck down, demonetized, and killed the silver dollar and refunded the debt into a gold contract. This last act of spoliation they misnamed "an honest money system." Yet after welding this chain of cruel conditions round us, and breeding and bringing on panics and business bankruptcy to the common man at regular intervals, bringing us through this serpentine route of swindle and fraud, telling us all the time that they were the "Lord's annointed saints" and rulers, the guardian angels of our financial system, the defenders of public credit and public honor, and the sanctified apostles of "honest money," sound banking systems, and safe and sane currency laws, and that all who opposed them were visionary dreamers representing inflation, repudiation, and dishonor, they came forward five years ago with an imperative demand to corn the untold millions of debts they held against the States, counties, cities, corporations, institutions, and individuals of our country into currency—at the people's mint. This climax in their career of crooked conduct they in their pragmatic and pusillanimous effrontery called "An act to reform our currency."

I can not believe—I shudder at the thought of believing—that the Democratic Party can be made to turn the picture of Jefferson, Jackson, Calhoun, and Benton to the wall, and take up where Aldrich left off and carry out his scheme.

Senator, millions of our people hold no assets except willing hearts, willing minds, and willing hands to work, and the product of these is their assets. An asset currency will give them but scant relief and will finally intensify their distress.

These people have looked to the Democratic Party as their friends. If they have looked in vain, then the party will look in vain for their support in recurring elections.

Let me plead with you people, Democrats, to "remember thy creator," the common people. Revise your measure along fundamental lines as outlined by Henry and his friends, and add a farm and home provision, and you will leave your names enshrined in honor and esteem to hand down to a grateful posterity as having brought to life again the Democracy of Jefferson and Jackson on the money question.

Take the Henry amendments as a basis with a farm and home builders' addition. A home was God's first gift to man—a home and some portion of the earth from which to produce comforts, and where we can rest from toil; a home, around which hangs a halo of endearment to every human being; a home, the absence of which tends to make man an alien to his God, an alien to his country, and an outcast. A home is so essential to human happiness that the downfall of society, the decay of liberty, and the wreck of civilization in every country have been measured by the homeless numbers within her borders.

The love of money is the root of all evil, and the money question is the vital point in every country. A money system founded in

usury, based upon debt, and conducted through a barricade of toll gates erected by law between the people and their mints, and often kept by a lot of licensed looters and franchised freebooters who look at everything through the curves of a dollar mark, and waylay every important business transaction, and forbid its passage unless they can have a rake-off, is the blighting curse and crime of our country now.

Your pending measure complicates, augments, and aggravates that situation.

We must not consider society as now existing, the normal or natural status. We have been vitiated, bound down by ages of oppression and plunder and never allowed to develop the good, the sublime in our race.

We must change our money system so as to invest at least half for public good and not for private gain. This will mark the way to a glorious advancement, peace, and prosperity.

Mankind is a creature of environment; his conscience is a pupil in the school of contact, subject to the evil as well as the good influences, and money is the most absorbing thought in the human race, and a just and righteous system of currency will do more to tone and elevate life than all else statesmen may do. But our present system is a relic of barbarism coming down from feudal times, and our country is now filled with Shylocks who still demand their pound of flesh.

When the men who made our Federal Constitution had finished their work, in the address they sent out to the people they named five great questions of sovereignty that had been taken from the States and vested solely in the Federal Government and "made supreme."

These powers were "to make war, conclude peace, form treaties, coin money, and regulate commerce."

They said these questions—

and the correspondent executive and judicial authorities should be fully and effectually vested in the General Government.

We have just as much right to farm out to banks and corporations the power to declare war and conclude peace and make treaties as we have to farm out the power to coin money and regulate commerce, and would be equally as safe in so doing; yet we have vacated our sovereignty over our coinage and currency and the regulation of commerce to a pitiless horde of conscienceless corporations, which have become cannibals in commerce and merciless marauders in our monetary affairs. And led on by inordinate greed are now demanding that the great majority of our people, the bone and sinew of our country, the toilers in our industrial world, and the tillers of our soil, the great debtor class, over whom they have held sway for a lifetime, shall now be shackled and bound by law, through an asset currency as sheep to be sheared by them, for another generation. May God intervene through the clarified conscience of an honest democracy and prevent this spoliation.

I do not claim to be an expert in financial matters. A lot of the most consummate freebooters that ever filched humanity have been called by themselves and their lionizing flunkies as experts.

I am just a common man in the common walks of life. I have spoken in the language that intense earnestness gives to one who has spent a large part of his life for the freedom of the masses from the shackles of the classes.

With much respect, I have the honor to be,

Yours, in best wishes, J. H. DAVIS.

(The following brief was filed with the chairman of the committee, with the request that it be printed as a part of the hearings:)

BRIEF OF ANDREW L. BUTTER, OF ENFIELD, N. H.

Before entering upon this vital subject it may not be out of place to state that this paper was prepared nearly or quite four years ago, and which, from the knowledge of present conditions, appears to have been forecasted by recent events in the New York Stock Exchange inquiry, and only serves to give added force to the suggestions here faintly outlined. It is hoped that these statements will be received with that respectful and serious attention that the gravity and importance of this all-absorbing subject demands. Even if the suggestions may be crude and disjointed, yet it is believed you may be able to glean an idea or two that may present additional facts not already touched upon by others, and it may interest you to know also that no mere theory or Utopian scheme is indulged in but reference is made to actual facts patent to anyone sincerely disposed to make use of them in order to fully substantiate and make clear the purpose for which the facts, and facts alone, are presented with which to construct a practical and plain common-sense system of banking so much needed at this time, and for all time for that matter.

In calling attention to the growing necessity for a more satisfactory and thorough reorganization of the country's present financial system and in dealing with the contemplated change it may not be out of place to refer to the comments made in relation thereto by the Secretary of the Treasury in his annual report for 1909, which are at this time unnecessary to quote. But if nothing better can be arrived at than resulted in the act to amend the national banking laws, approved March 30, 1908, which, taken altogether, is nothing but a miserable makeshift that can serve no other purpose than to still further complicate the already too complicated and complex condition of our currency system, in adding still further to these futile efforts to properly and safely adjust our currency, your attention is called to the extremely unwise act passed by the previous Congress giving the Secretary of the Treasury authority to issue emergency currency based solely on the Government's credit without the means being provided for its redemption. Now, why should there be occasion for the issue of irredeemable currency at any time? Has not this always been our great trouble—this patchwork legislation, this Micawber-like system of finance, the results of which have always proved disastrous to our national credit, adding still further to the spirit of speculation the country over and fostered for that very purpose by the big, the Wall Street, interests?

In further confirmation of what is here stated let us call to mind the conditions that were vital factors which resulted in producing the great panic of 1873, one of which was not so much the destruction of capital by war, as cited by Mr. Charles A. Conant in his Century article, as diverting it into speculative channels, and really the four milliards poured into the lap of Germany in the shape of France's promises to pay money and after the war of 1870, also like promises of Austria after Sadowa, and coupled with our own abundant promises, not money but promises to pay money at about the same period representing in the grand aggregate the startling sum of $9,000,000,000 of promises to pay. These combined flotations speedily found their outlet in the wildest speculation, both in Europe and America. The failure of Jay Cooke & Co. was simply the one factor which shook this paper house of cards to its very foundations, thus leading, as it always does, to universal disaster. It is simply piling Pelion upon Ossa in attempting to construct our financial edifice out of paper promises, which this present bill contemplates, and the results of which from the very nature of their creation out of airy nothings of which dreams are made and not any more substantial, can not be otherwise than the source of still further trouble. The effort must now be made to change the current and break away from our mental bias, which leads us only too easily to rely alone and solely upon the credit of the Federal Government.

A word also in relation to reserve centers for the storage of currency to meet possible emergencies arising from the movement of our agricultural and other products during

the spring and fall. The proposed plan which will be treated further on in this paper will, it is believed, entirely do away with such a provision, which can only open the door for opportunity such as already exists in the case of New York City banks and other large money centers.

It may be stated in the first instance that almost the entire circulation is based on the credit of the Government as is evidenced by the use of its liabilities in the form of interest-bearing bonds which on October 31, 1909, as appears from the report of the Comptroller of the Currency, were deposited with the Treasurer of the United States together with lawful money, $679,545,740; notes, $25,595,703, which represents the amount of national-bank note circulation, $705,141,443 at that date; legal-tender Treasury notes of 1890, $351,000,000; total paper currency, $1,056,141,443. Against this amount of currency but $150,000,000 in gold has been set aside for the redemption of legal tender notes only, leaving over $900,000,000 unprovided for which can only be redeemed by the sale of the Government bonds as aforementioned which in any case does not involve the use of either gold or silver coin and are redeemable in legal tenders. All are fully aware that the precious metals constitute the very foundation of all financial and commercial transactions throughout the entire business world, and in cases of sudden monetary panics which so frequently occur to unsettle business, destroy confidence and credit, prove that gold and silver coin are the only panaces for their cure. Again, we are obliged to acknowledge that since the adoption of the national banking system in 1863 and 1864 and up to the present time, its success has been wonderful notwithstanding its serious defects. Its growth has been phenomenal, starting with 1,513 banks in 1865 with a capital of $393,187,206, and individual deposits of $500,000,000 and to October 31, 1909, increased to 7,025 banks with capital of $964,621,000 and individual deposits of $6,956,502,890, all in 44 years. The very fact of the tremendous strides thus made during the past 44 years to 1909, chiefly upon credit, is itself a menace and an encouragement to still further stretch that credit beyond the bounds justified by sound business methods.

To give you a clearer and more comprehensive view of the tremendous business transacted mainly on credit of the banks of the United States of all classes, including national banks, I beg to invite your attention to a few figures which in the aggregate are simply startling in their amount, the assets of said banks being made up of loans and discounts, overdrafts, bonds, stocks, domestic and foreign securities, real estate, mortgages, furniture, and fixtures, together with specie, United States notes, legal tenders, notes, and a lot of miscellaneous items which total the immense sum of $21,066,064,420. Of this vast sum there is represented as available in gold and silver and subsidiary coin but $1,044,661,913; the balance of $20,060,000,000 represents credit in its various forms as above recited—bonds, mortgages, realty, etc. These figures may be found on page 31 of the Report of the Comptroller of the Currency for 1909 and are approximately correct as per reports also of 22,491 banks, national and State, received and tabulated by the United States Monetary Commission to April 28, 1909.

To still further exhibit the great amount of business transacted on credit through the bank clearing-house system, which aggregate 123 associations located in the large business centers of the country, the aggregate exchanges during the year to September 30, 1909, were $158,559,487,000. On these vast transactions only 4.22 per cent was paid in money, as reported to the Comptroller of the Currency by Manager William Sherer of the New York clearing house (see p. 9 of his report, 1909). It would be useless to still further startle you with figures running up into the billions of individual checks and checks of business houses all over the land drawn against their bank accounts. What has already been shown will abundantly serve the purpose in demonstrating to us all the necessity for speedily inaugurating a radical change for the betterment of our finances by placing our circulating medium on a sound specie basis and at the same time insuring the absolute safety of bank deposits as is already done in the case of the bill holder, and there can be offered no valid reason why the depositor should not share in such protection, which, by this means, would add to the confidence of the public in the banking system as is in contemplation and as will appear in the suggestions which will be followed in due sequence.

A former governor of the great State of New York, and at present sitting on the bench of the Supreme Court of the United States, in a speech at that time, and certainly having in mind his recent experience as an investigator of the big insurance companies in New York City, stated that there was no reason why the depositor should be made secure, as Tom, Dick, and Harry were not personally interested in looking after the deposits of their neighbors. Did he not know and had he quite overlooked or forgotten the fact that the very essence of insurance was the fact that Tom, Dick, and

Harry jointly assured the safety of each other in the payment of the premium on the amount for which they were insured, thus making it possible to secure the safety of the policy of each and all thus associated?

As a brief retrospective view of conditions that have grown out of past experiences in our efforts both by individual States, the General Government, and by the business community, I may here be permitted to hastily refer to Alexander Hamilton, pre-eminent as a constructive and successful organizer, as instanced in his able work in the establishment of the system that has been in operation in the United States Treasury for over a century, and also his able work in the constitutional convention and as a statesman whose labors before and after the adoption of the Constitution and in Washington's Cabinet as one of his chief advisers, have marked him as one of the grandest figures in our history, and time only adds to the luster of his acknowledged genius. He drew order out of the chaotic condition in which he found the finances of the country, reconciling the serious differences between the several young States growing out of the extraordinary expenses for fitting the volunteers furnished by them during the Revolution, and also Hamilton and those working in harmony with him saw the necessity for the establishment of a bank under the indirect control of the Treasury to serve as an aid in giving some measure of stability to the somewhat chaotic and imperfect financial condition at that time. Such a bank was incorporated by act of Congress in 1791 for 20 years, the Government taking stock in it to the amount of $2,000,000 by deposits of 6 per cent bonds to that amount, the bank being capitalized at $10,000,000. In the case of this bank no report of its condition is available until 1809 and 1811. A statement of its assets and liabilities is appended, and in the case of the second United States Bank, chartered by Congress in 1816 for 20 years, a statement of its condition from 1817 to 1840 is given and may be found in Tables XX and XXII, pages 432 and 434, Annual Report of the Comptroller of the Currency for 1908. Upon an examination of these brief citations the conclusion may safely be drawn that if the United States Bank had been permitted to continue, with our growing knowledge and experience in bank management, it would have proved quite as successful as the Bank of England, and, with branches throughout the country as population and business increased, would have greatly assisted in developing commercial enterprise, at the same time have to a great extent prevented the exotic growth of hundreds of irresponsible and mismanaged State banks built up on fictitious capital and which culminated in financial disaster in 1837 and also in 1857, 20 years thereafter.

At this late date we may be permitted to refer to the violent and unreasoning opposition against continuing the United States bank by many of the people at that time, and even well-known business men were ignorant of a practical knowledge of the banking business at that time, and because of that lack of knowledge were strongly prejudiced against the system. They were mere children and yet to be schooled by that relentless teacher, experience, which as aforenamed was taught them by the financial disasters of 1837 and 1857; and thus ignorance, prejudice, and politics made it a party cry of the then democracy.

President Jackson, equally unprepared, for like reasons, and fearing its monopolistic tendencies felt called upon to oppose it in his characteristic and strenuous way. With all due respect to the hero of the Battle of New Orleans and the vigorous opponent of nullification, he was not equipped to intelligently oppose the financial policy then in existence, but was obliged to appeal to ignorance and strong party prejudice in order to make his opposition to the further extension of the charter of the second United States bank successful. The Whig Party, with Clay in the leadership, was not able to cope with the formidable array of the party that advocated for the first time in our history the Jacksonian doctrine, that to the victor belonged the spoils, and the advocates of a United States bank sank beneath the blow. With our present knowledge we feel that the work of the Jackson administration in this particular was a fatal blunder. The question is thus briefly referred to at this time for the reason that the proposed reorganization contemplates making the Government one of the principal stockholders, if not the principal stockholder, in the contemplated central national bank.

We must not permit unreasoning prejudice to stand in the way of looking squarely at the facts that at the present time confront us at every hand, as we can not fail to observe that the National Government has been compelled to assume direct control of many vital interests that without such control would prove permanently disastrous to the best interests of the people as a whole. The Interstate Commerce Commission, the Department of Commerce and Labor, the Agricultural Department, Post Office Department, with parcel post and savings adjuncts, the conservation of our land and water, and many other noteworthy objects, in fact, our entire governmental machinery constitutes one grand gigantic trust. Why should we fear to still intrust the

great and commanding interests involved in the direct management of our country's finances, which present economic conditions really compel us to do? With our present knowledge there appears to be no other safe course. Another feature that should be borne in mind, should the General Government become an active member in the proposed plan, is that the money in the several Subtreasuries could be used not only as a working balance as at present, but form part of the common fund for daily use, and thus actively utilize what has been held these many years past as idle and dead capital, serving no good purpose whatever. There are other vitalizing influences that will naturally enter as important factors in the plan suggested by the active employment of idle capital in hundreds, nay thousands, of banks in our large cities and commercial centers that our present banking laws prevent them from doing, where the central bank directorate could find use for it. It is well to bear in mind that not all of the coin and currency as noted in Treasury circular issued from the office Loans and Currency Division, in the Treasury Department, is available, is not in current use, as much of it is held by the banks, loan and trust companies as reserves. In the plan proposed every dollar of coin currency can be put into active circulation in view of the enormous deposits that will be at the disposal of the central and allied banks, and can be at all times at the disposal of the central directorate for transmission to any and all points where it may be required. As before stated, no special reserve will be needed. That feature alone will serve as an efficient means to prevent threatened panics.

The Secretary of the Treasury through the Comptroller of the Currency already has general supervision, for nearly 50 years, granted by the national bank act and its amendments, over the entire national banking system. In order to give additional stability and character to it, the Government should take an active and practical interest in its management, taking cognizance of its loans and discounts and the kind of security that may be accepted, and vital matters relating to the circulating medium, seeing to it that it is sufficiently elastic to meet all contingencies arising from current business conditions. This does not mean that individual banks should not be under the direct control of the banks' officers—the president, cashier, and directors—but that the directorate of the central bank, which this plan contemplates, should be careful to see that the general and specific requirements of the bank act should be strictly adhered to and carried out in every detail. Direct Government control, say, through its officers, who should be in the directorate, namely, the Secretary of the Treasury, Comptroller of the Currency, and the Treasurer of the United States, or their duly authorized representatives, will demand that not only the interest arising from its large stock investment, but the magnitude of the transactions of the bank which will inevitably be involved, will require all time, talent, and energy at their command to see to it that nothing shall be left undone to secure safe and permanent success in all its departments. As the Government will have the chief interest in the central bank the matter of proper compensation of the directors and other officers commensurate with the work and responsibilities attaching thereto, will be the duty of Congress to fix, and especially so in the cases of the Secretary of the Treasury, Comptroller of the Currency, and Treasurer of the United States, whose salaries are already fixed for their present duties, and should be increased in proportion to the new duties and responsibilities to be assumed by them, governed to a great extent by the compensation received at present by the officers of the large banking institutions in our large business centers.

Referring to the important matter of security to the depositor as well as to the note holder it may be noted that several of the Western States, notably Oklahoma, have taken up the question in earnest and in that State all banks are required to set aside one-eighth of 1 per cent for that purpose. I know many people may think this action impracticable by reason of the tax upon bank profits. In defense of the proposition I beg leave to submit the following statement of the actual losses sustained by the failure of banks for the entire period of the banking system from 1864 to 1908, over 44 years, on page 391 of the Report of the Comptroller of the Currency for 1908, quite long enough to demonstrate its actual necessity at this time; that out of the yearly average of active national banks numbering 3,174, with individual deposits averaging $1,597,987,400 annually, the annual loss to those is but 0.074 of 1 per cent, and for the 44 years, with aggregate deposits of $70,311,445,582, the loss is only as before stated, 0.074 of 1 per cent.[1] You will see at once that the sum to be set aside annually in the interest of all of the depositors in the several national banks throughout the country for the purpose would be exceedingly small as compared with the average annual individual deposits and will but slightly affect the annual profit, and this fact being clearly shown the gain in the confidence and credit of the system will far outweigh the cost,

[1] Read from pages 6 and 7, Treasury Department Circular No. 62, July 1, 1908, as to profits on capital invested by national banks, and also page 240, Report Comptroller of Currency for 1907.

and also reduce to the minimum the danger of a monetary panic; in fact, make it almost, if not quite impossible. Is not the practical experience of half a century sufficient evidence for its adoption?

The method to be adopted in bringing about the proposed change may be thus stated as briefly as possible:

A central national bank with a capital in gold coin and bullion and silver coin and bullion to the amount of	$2,000,000,000
The present active national banks to take stock severally in the total amount of the present capital of each bank which on Oct. 31, 1909, represented 7,025 banks and capital of	964,621,925
The United States Government to the amount of its present outstanding legal-tender and Treasury notes, 1896	351,000,000
Outstanding	1,315,621,925
The public to subscribe for the remainder in sums of $50 and its multiple, deposit to be made in gold and silver coin to make up the difference after national banks and Government subscription paid in	684,378,075
Total	2,000,000,000

The coin certificates or coin notes should also have the legal-tender quality as the United States legal tenders have now, as they are based entirely on deposit of gold and silver for their redemption.

For the amount of gold coin and bullion, about $225,000,000, now held in the Treasury a like amount of legal tenders to be retired as rapidly as they come in and an equal amount of national coin gold bank notes to take their place in denominations of $500, $1,000, and $10,000, and for the coin held by the national banks about $225,000,000 gold, as shown by the report of the Comptroller of the Currency, January 30, 1911, and $29,000,000 silver, in same kind of notes as above described and in like denominations as may be required in current business.

In the case of new subscribers to the stock of the central national bank and for the amount of gold and silver coin deposited a certificate of the fact should be issued by the Treasurer of the United States as custodian and director of bank, and in like manner certificates should issue to each individual bank for the total of its capital stock, at the same time stating character of said capital stock, and same shall be held as at present by the Treasurer of the United States as a guaranty for present currency circulation until such time as securities can be sold for gold or silver coin or their substitute in certificates, the latter to be used in place and stead of United States bonds now held for the purpose noted above; similar certificates to issue to each individual subscriber or stockholder.

Now as to the measure of acquiring the amount of gold coin, bullion, and silver coin to cover the capital stock of the central national bank, there may be found on page 325 of the report of the Director of the Mint to June 30, 1909, the following:

The estimated stock of gold at that date in the United States was	$1,574,906,904
Silver coin	727,685,265
Making a total of	2,302,592,169
The present stock, June 30, 1911, of gold coin and bullion is	1,753,196,722
Standard silver dollars and subsidiary silver coin	724,640,731
Making a total of	2,477,837,453
An increase of	175,245,284
Of this sum the United States Government holds of its own, say (gold)	$236,000,000
And for depositors	15,000,000
National banks	224,000,000
Private banks and individuals	375,000,000
Gold coin and bullion	1,840,000,000

Standard silver dollars held in Treasury for silver certificates	$477,717,324	
National banks:		
Standard silver dollars	12,822,408	
Subsidiary coin	16,135,383	
Private banks and individuals, standard silver dollars	59,165,492	
Private banks, subsidiary coin	116,140,415	
	682,037,022	$2,322,117,022
Leaving for future investment, when required		322,117,022

Now, gentlemen, here are indisputable facts—solid facts—and with such facts no excuse can be found to avoid constructing a financial system unexampled in the world's history. You have only to assemble these scattered units as is here shown to make the entire vast sum of gold and silver at once available.

With this substantial evidence, the facts of which are beyond dispute, there can be no possible doubt as to the ability of the central national bank to secure the required amount of gold and silver in coin and bullion to furnish the aggregate amount of capital stock contemplated of, say, $2,000,000,000, or even $2,500,000,000, thus placing the new organization on a solid and permanent foundation instead of the use of the United States Government, State, county, and municipal bond liabilities as at present. It has been shown by the Comptroller of the Currency in his 1909 report (p. 17), that the profits accruing to the business of the national banks throughout the country to be slightly over 10 per cent of the capital invested. This fact well known, together with the knowledge that the General Government will have the principal management, there can be no danger of there being more than enough national banks and individuals to take up the amount of stock required.

Permit me here to refer to the proposition made by the Hon. Nelson A. Aldrich, late chairman of the Senate Finance Committee, who also favors the idea of a central national bank, but with a capital of only $300,000,000. It can not fail to strike any of us that we can name 10 men who could, without reaching very deeply into their pockets, quietly control the majority of the stock and thus make it possible to use the central bank for their own special interest and that of their friends.

As to the proposed use of silver as well as gold in the new organization, it should not excite surprise or alarm, as standard silver dollars have formed an important part of our circulation ever since the act of Congress of 1878, 32 years, providing for the purchase of silver bullion for coinage into United States dollars and which amounts to nearly $500,000,000 and their substitute silver certificates have become familiar to us all.

We have also subsidiary silver coin in circulation to the amount of $160,000,000 (and, by the way, 8½ grains less than standard silver dollars), and both have been accepted without question in daily business at their present parity with gold; and this is as it should be, as under the Constitution Congress has seen fit at various times in the past to fix the value of the coins minted of both metals arbitrarily in the common interest and for the convenience of the public at large. At this point it may not be out of place to state that in the Annual Report of the New York Clearing House Association for the year ending September 30, 1911, the sum of $498,775,000 in silver certificates was used in the settlement of debit balances to the association, demonstrating their daily use in the current business of that conservative institution without at any time raising the question of bimetallism, as it was assumed that their possible redemption might be made in gold coin. The word "arbitrarily"? It is vitally important to impress upon your minds this undeniable fact, that all governments have arbitrarily done the same thing—that is, fixing the ratios of silver and gold—and the standard of value in the coin of any country does not always conform to the standard fixed by other countries. The chief factor that has governed in most cases is the value given to the precious metals by custom long established in the commercial world from the earliest times of which recorded history affords us any knowledge. The Chaldeans over 4,000 years ago fixed the parity between gold and silver as 12 to 1, and we have at this time changed it to 16 to 1, or nearly. In 1786 it was as 1 to 15.25, double standard at that; in 1792, as 1 to 15, with free coinage, and so on. For your further information I crave your indulgence by glancing as briefly as possible at some of the changes adopted by various nations as per report in Circular No. 62 of the Treasury Department July 1, 1908. In order to emphasize the fact that all changes in our monetary standards are made arbitrarily (I use the word advisedly), and at times I fear in the interests of the few instead of the many, you will at once perceive the impossibility of depending upon the daily market value of the bullion which without the official stamp of the mint is simply a

commodity governed entirely by the law of supply and demand. Once the seal of the Government is placed upon either metal its value is thus fixed beyond question, and the responsibility for its redemption and acceptance rests entirely upon the Government, and the public receives it because of that fact, and its validity for that reason can not be questioned.

Referring again to the necessity for direct Government control, it will be necessary to repeal the act creating the Independent Treasury and the closing of the several subtreasuries, and also the act of May 31, 1878, prohibiting the redemption of legal-tender notes, that all Government funds from all sources shall be deposited with the central national bank or any of the affiliated national banks, and all drafts and checks drawn by the Treasurer of the United States to be paid by said banks, accurate account being kept for that purpose, as the Government will have personal supervision, as before stated, through the Secretary, Comptroller of the Currency, and Treasurer of the United States on the board of directors.

There can be no doubt but that the repeal of the act creating the Independent Treasury will result in greatly simplifying the work of the United States Treasurer's Office, and result in reducing the cost in running it. In fact, the receipt and disbursement of the public funds by the central national bank and its agencies can be made without any cost to the Government whatever.

The safety of the public funds will be absolutely as secure as under present conditions, and more so. The preparation of the currency and the redemption of the same when necessary will be continued in the same manner as at present, excepting that the National Bank Redemption Agency should form a permanent part of the United States Treasurer's Office, as the currency, say in the course of five years at the furthest, will all be of the same character, resulting from the change of conditions as is in contemplation. The question of bimetalism has not been raised in these remarks, but reference is made here to section 14 of the act approved March 14, 1900, which states that the provisions of this act are not intended to preclude the accomplishment of international bimetalism whenever conditions shall make it expedient and practicable, and secure the same by concurrent action of the leading commercial nations of the world, and that at a ratio which shall assure permanence of relative value between gold and silver.

Your attention has already been called to the fact, several times repeated, that all ratios and parities are arbitrary and, as a rule, made in the interests of each nation. This being undeniably true, it would be entirely proper for us as the principal commercial nation of the world to take the initiative and simply continue the use of the present metals (gold and silver) at present parity only authorizing the purchase in the open market of an amount of silver bullion for coinage into standard silver dollars and subsidiary coin as may be found necessary to meet the yearly increasing demand, keeping in mind that no greater sum shall be coined than will keep the difference in the circulation between the two metals as is the case at the present time, i. e., $1 in silver for $3 in gold. The cheaper metal, we are all aware, remains at home under present conditions, only gold will be exported as may be required abroad by purchase for circulation or by the result of foreign business demands. In this connection it may be stated that a possible remedy can be provided to very greatly prevent the exportation of gold coin already minted by placing a prohibitive tax upon such exportation and permitting only pure bullion to be exported not already in the possession of the mint for use by the Government as a basis for currency issues. Another suggestion will appear to be opportune, and that is the fact that the total of the present coinage of gold and silver—of present denominations is meant—is amply sufficient for many years to come to supply current demands. In lieu thereof there could be minted of both metals, with the present percentage of alloy as 900 pure *is* to 100 alloy, there could be substituted ingots in such form as may be found most convenient in handling, varying in value, in gold from $500, $1,000, and $10,000, and for silver $50, $100, and $500, and ingot certificates could be issued for them, as is the case at present for gold and silver deposits of coin, thus adding convenience of handling as well as saving the expense of coinage, and at the same time serve the purpose as security for the issue of national-bank notes as hereinbefore stated.[1] For your information it may be stated that the Director of the Mint, in his report to the Secretary, page 324, estimates exports of gold abroad last year at about $61,000,000, and the net exports from 1870 to 1909 total $691,746,700. Our neighbor, Canada, held in its treasury December 31, 1908, $54,909,076 of our gold coin. What is the significance of these gold exports, if not for the self-evident purpose of the European nations to safeguard their credit with gold and silver coin? The gold production of all the mines in our States and Territories in 1908 was, in gold, $94,560,000; in silver, $28,050,000, coinage value. Of this sum there was consumed in the industrial arts $14,754,945; in new

[1] See page 8, Report of Director of Mint for 1910, suggesting coinage of bars for coinage of coin.

material of the mines and in silver bullion, market value $3,000,000, or approximately that amount.

It has also been recently stated by certain alarmists that the greatly increased production of gold in the United States and also throughout the world has a tendency to cheapen it and in consequence resulting in the increased cost of living. I have just this moment given the results of the production of our mines, and after deducting the amount used in the industrial arts there is but approximately $79,000,000 that can be utilized for coinage in gold coin and about $25,000,000 in silver. Now, we have a population of about 95,000,000 people, and the resultant increase is but a paltry dollar and a small fraction per capita.

It hardly seems necessary to buttress this statement of fact by the honestly and earnestly expressed views of others who have given perhaps more serious thought to the subject than myself; yet in view of the vital interest attaching to the influence which the production of gold in such vast quantities in recent years is supposed to have in regulating the price of commodities, I may refer briefly to an interesting article in the North American Review for July, current year, by Albert S. Bolles, on this subject. He comes to the conclusion that instead of gold, or rather the precious metals, having any influence upon prices, speaking generally, that the trusts are mainly responsible. He quotes from the eminent French economist, Neymarck, who states:

"There is no denying the increase in the production of gold. It has kept up for 100, for 50, for 20, for 10 years, always progressing. And yet, during the interval in France and abroad, there have been crises caused by the going down of prices—a fall in food products, in the price of land, in mineral products, coal, iron, etc. How did it happen that the gold production, which they say is the cause of the rise in prices nowadays, could not stop the fall in prices then?"

David Ricardo, one of Adam Smith's brightest followers, refers to M. Say, another eminent French economist, and also to the Earl of Lauderdale concerning the laws which are supposed to govern the rise and fall of the prices of commodities, do not attribute it altogether to the abundance or scarcity of gold, but assign the cause mainly to the trusts, who are able to control them, because of the fact that they can create at will a demand by withholding the output until the necessities of the people make it possible and then dictate the price. At the same time they state that the precious metals, particularly gold, are liable to the least fluctuations as a medium of exchange.

Prof. Fisher, of Yale, has suggested the annual adjustment of the value to be given to the precious metals, chiefly gold. Let us inquire, Has any nation—have any noted bankers anywhere made the attempt to perform what to me seems the impossible? It is not a matter possible of adjustment in any such way, as each nation has already fixed their value arbitrarily, for in no other way can this be effected. It is common knowledge that the value of any product is mainly affected by the law of supply and demand. Pure gold and silver bullion are placed in the same relation with other products. The Government fiat can alone definitely determine the value of our gold and silver coin as a medium of exchange, thus leaving pure bullion of the precious metals a merchantable article.

Just at this point let it be stated in defense of the permanent use of the precious metals as the foundation for the proposed system, that in the matter of the purchase of gold and silver, and particularly the latter metal, the difference between the coinage value and the bullion value in the open market has always afforded a profit or seignorage to the Government and has been covered into the Treasury as a miscellaneous receipt, and millions of dollars have thus been added thereby. Now, it is vitally important that it be borne in mind that this gain or profit added to the coinage value will always, no matter what the condition of the bullion value in the open market may be, make or rather secure the Government at any and all times against loss. This fact does not always appear on the surface, but yet is a self-evident proposition that should always be borne in mind that no loss is possible at any time to the Government and logically none to the people.

I may be pardoned in this connection, as it relates to this all-important question of the intrinsic value of gold and its relation to other products and also as a measure of value. I have just cited several weighty authorities on the subject. You are now invited to several statements in an article on "Taxing the cost of living," by David Starr Jordan, president of Leland Stanford University, which appears in Harper's Weekly of August 23, 1913. He begins by stating that the high cost of living began about 1897 and is world-wide and greater in high-tariff countries. In general, the rise has been 50 per cent and the fall of the purchasing power of gold has also fallen about 50 per cent, and he quotes Sauerbeck, who states that an Englishman's dollar of 1897 is worth 87 cents and an American dollar 70 cents, and in 1913 the American dollar is worth but 61 cents. Again, he states that the increase of the world's stock of gold in from

$7,500,000,000 to $11,000,000,000, and that this increase has now passed its climax. Now carefully mark what follows, as in the next breath he states: "As the amount of gold at the best is very small for the credit resting on it. The bonded war debt of civilized countries, exceeding $60,000,000,000, it is believed the importance of the factor is greatly exaggerated." After referring to the greatly increased means of gold production by new processes, he says: "Its influence is long since spent. It is not likely that the gold market will soon be disturbed again by new discoveries of mines or by new processes." Now, mark this last: "So far as it goes it means an actual cheapening of the value of gold." In making this last statement, it is presumed he refers to this metal, as an article of merchandise, or a commodity like all other commodities, and not as a safe measure of value as the nearest approach to a perfect standard.

The point, the important point, in these rather grave statements of the learned president appears to have been overlooked, or has been deemed quite unimportant in his effort to establish the facts he is endeavoring to bring to notice, and that is the fixing an arbitrary standard for the purchase of all commodities, and, further, the very facts he cites only serve to prove that it is not the gold as a standard of value, but the astoundingly stupendous credits of the commercial nations in Europe and also America, approximating $60,000,000,000, are the chief cause, and not the aggregate sum of gold which by his own showing is wholly inadequate to safely buttress those promises to pay; that, indeed, as has been truly said, has mortgaged four coming generations.

Students on the all-important subject of economics may and really do establish to their own satisfaction certain bases upon which the world's products are measured. But not one of them has been able to satisfactorily designate a better, a safer, a surer substance drawn from the earth, air, or sea than the two metals, gold and silver, called by all nations the precious metals, and they have been shown over and over again to be subject to the least variation of anything that has ever been used as a reliable medium of exchange. It is therefore not the precious metals, but the use and abuse of the credits based upon them. Why have all commercial nations in the long past and also to-day founded their credit system on gold and silver, and why are they strenuously piling them up in vast sums to-day? Simply for the sole purpose of establishing, as we should and must do, a permanent basis for a redeemable currency, and also for placing our credit system on an imperishable foundation. It can not be too strongly impressed upon our minds the absolute necessity of at once getting our minds altogether removed from the impression that we must place our entire dependence upon the credit of the Federal Government, as that credit can be impaired and has been impaired in times of stress in the not distant past. On the contrary, reliance must be placed on that basis that has been recognized as the only true and permanent one by all the commercial nations of the world from time immemorial up to the present. Let us therefore build our financial edifice as is proposed so that neither time nor circumstance can ever change or destroy.

The last meeting of a general monetary commission in which our Government took an active part, after long and wordy efforts discussing all sides of the question, returned to their respective countries, made a voluminous report, without in any practical way changing existing conditions at that time, nor has anything been done since, nor can anything be done only in the manner so frequently stated in this paper.

If we are to successfully carry out the purpose to establish our currency system on the imperishable foundation of the precious metals, from the knowledge at hand of the possible output of our mines, it will prove a difficult matter to supply the annual demand for additional circulation that a constantly increasing population and cumulative industrial needs will require.

The present per capita stock of gold and silver in the United States is but $18.45 in gold and $8.16 in silver; a total of $26.61. This sum, having in view the proposed change, is entirely inadequate. Viewing the matter as impartially as is possible under the circumstances, as has already been set forth, we can not safely arrive at any other conclusion that it is not possible that there can be a much greater output from the mines even with an increased demand, arising from a greater use of silver. Such demands will tend to bring a return of the value of silver bullion in the open market very near what it was in 1890, and thus avoid any necessity for changing the present parity as in all probability the chief commercial nations in Europe, Asia, and South America will be led, or rather compelled, to follow our example in order to keep in step with us, and to meet the new conditions their trade with us will require. It may be a matter of surprise to you that the proposition is made that all the national banks of the country should at once become subscribers to the total amount of their individual capital, yet if the new organization is to be a perfect success, as many of the people as possible should become personally interested in it and in no other way could it be made speedily effective than through the tens of thousands of stockholders already directly associated in our present system, and it could be brought about

without in the least creating any disturbance in our circulation, and thus permitting business to be carried on as usual.

The $634,378,075 remaining to be taken by the people—now bear in mind these millions in gold and silver are actually in their possession—which, under the conditions named, they would respond to with their usual alacrity when assured of its superior advantages as a profitable and permanent investment, which the direct supervision of the Government will give them abundant assurance.

To make quite clear the difference between our present system and the one proposed it is only necessary to state that our banking business and the business of the country is done chiefly on credit, and in the case of the national banks on the liabilities of the Government in the form of bonds and notes as its assets. In the new system the national banks will have the circulation based entirely on the use of the precious metals, gold and silver, and the depositor absolutely secured in the amount of his deposits. The advantage in favor of the proposed new method is so far beyond the present as to challenge comparison, and no arguments are needed in support of the logic of incontestable facts so clear that anyone at all familiar with financial matters will not fail to be convinced.

Another highly important factor that will be embodied in the proposed change is the special supervision to be exercised over loans that may be made for speculative purposes where the opportunity will present itself for checking and to a great extent keeping such operations within legitimate bounds by limiting such loans and demanding such security and its amount as to make them almost prohibitive. Large operations that are proven to be strictly legitimate and for promoting great enterprises, where their successful prosecution will find their opportunity in the known magnitude of the vast sums at their command through the medium of the central national bank where all business involving the use of large sums of money can readily be secured, should be under the sole control of the central bank.

I desire to refer at this juncture to the danger that already menaces the country in permitting a few men now representing the gigantic financial interests now virtually controlling to also control the entire national banking system and particularly if the central national bank with a nominal capital and with only such supervisory control by the Government as is now the case it will be quite within the bounds of possibility for the interests to dictate for their own selfish purposes just what sums shall be loaned for what object and to whom.

In the November, 1908, issue of the Everybody's Magazine on this subject I may be permitted to give a few figures, both startling in their amount and the multiplicity of their far-reaching influences and world-wide connections. That a small coterie headed by the men who successfully organized the great steel and other trusts can dictate to the financial business just what shall and shall not be done. I may as well state what the magazine authoritatively published that the grand total aggregates the sum of $10,268,582,000, made up as follows:

Morgan's own banks	$1,000,000,000
Morgan's banking interests	6,133,487,000
Morgan's affiliated companies	2,635,095,000
Morgan's partners	500,000,000
Total	10,268,582,000

With such evidence as these figures present, is it any wonder that immediate steps should be taken by Congress to thwart the gigantic financial monster by at once passing a national banking act such as has been briefly outlined in this paper by giving the Government the direct control of the national currency and its finances?

In the face of these stupendous facts and figures here referred to and also in view of the fact that this monumental accumulation of capital in a few hands in a few short years, we can not but admit the economical necessity which the development of our vast commercial and industrial resources have made absolutely imperative for the requirement of large enterprises, and without such concentrated capital would be quite impossible. No argument appears to be needed to convince us that such accumulated capital should be placed in impartial hands to serve in promoting large and legitimate enterprises and irrespective of sections or of particular individuals.

No prophetic vision of the near future is claimed. Common observation as seen from present industrial conditions and constantly increasing demands for the means for promoting their development point unerringly to still greater concentration of capital as to make the figures named look grotesquely small in comparison, adding still further, if any other incentive is required, almost and in fact altogether compelling the Federal Government for the interests of all to assume directive control and thus insure its impartial disposition, that no set of individuals shall gain any special

advantages as compared with the business requirements of the business public at large. It will be seen at a glance that not less than two billions should be the least sum with which to capitalize the new organization, with the provision that the capital shall be increased from time to time as rapidly as the increased business of the country may demand and placing the control of the contemplated system under the direct supervision of the General Government, as before stated, is imperatively necessary in order to fully conserve the business interests of the whole country, giving, as it will, the smaller banks outside of such financial centers as New York and Chicago and other large cities where capital is already gathered an opportunity to meet the demand of local interests without dictation of pressure from New York or any other point and at the same time share in the advantages that will inevitably grow out of their connection with the central bank as the result, and the necessity for reserve districts in a large measure can thus be avoided.

Another feature of the contemplated change will be the practicability of establishing branches in all the principal business centers in Europe, Asia, Africa, and South and Central America, which has been the crying need of our people doing business in foreign countries and has been and is now a serious drawback in their money transactions. Another feature which looms up largely with railway and all large corporative interests is the fact that they have already borrowed abroad money to the amount of $6,500,000,000, on which $250,000,000 in gold is drawn annually in interest, making a continuous drain on our resources. This could be largely prevented when it will be quite possible to borrow large sums from the central bank and thus keep the interest as well as principal of such loans at home to add to the cumulative assets of the country.

It may be well to invite your attention to the fact that these large loans made abroad by our railroads and other corporate interests could not be secured at home at the time when required, as our capitalistic interests were widely scattered and it was only possible to secure large sums by turning to the Rothschilds whose great and concentrated holdings I have no doubt proved an object lesson to the late Mr. Morgan and his associates, and which has but lately, in the past 10 years, say, grown to such large proportions. I have only to cite a single instance, where the Morgan interests took over the entire municipal loan of New York City of $170,000,000 at the handsome figure of 96½, which was quite impossible a few years ago, because of our present system. That there was or is any graft in the transaction we may not say, but we can have certain mental reservations as to the probability of it. This lesson is only a mere bagatelle that can be practically realized by the contemplated central national bank for the promotion of big ligitimate enterprises that will inevitably spring up in the development of our numerous and growing industries.

Now, let it be stated at this point that if present financial conditions are permitted to prevail, still larger aggregations of capital will be concentrated in the hands of a few big operators, which naturally follows, will be done in their own individual interests as in the case of Rothschilds and Morgan, with not the slightest consideration for the public welfare and only that profits may accrue to themselves alone. Knowing these facts as we should, what other possible course is advisable or possible to stem the rapidly and inevitably swelling tide of concentrated wealth unless the General Government is authorized to step in and take active and advisory control in this way to prevent our stored-up capital becoming misdirected and taken from its legitimate channels of usefulness for the good of the whole people.

To more emphatically emphasize the necessity for extending the proposed banking facilities in foreign countries, reference may profitably be made to the strong statement uttered by the Hon. John Barrett, Director General of the Pan American Union, who states that there is not one banking institution south of the Isthmus of Panama which is in any way controlled by United States capital. Having in view the striking fact that our trade with the South American Republics, of exports and imports, amounts to the vast sum of $640,000,000, a like statement will also apply to our large foreign trade in Europe, Asia, Africa, and the islands, only with greater force, as our commerce in all the countries named runs into the billions.

In the proposed reorganization proper legislation should be enacted that will enable the central bank to establish agencies in every large city which our foreign trade may require. It is quite obvious that such agencies once established throughout the commercial world will familiarize our coin-redeemable currency, with its absolute and permanent value, that in time will be accepted everywhere as our present gold certificates are to-day, as an always reliable medium of exchange the world over. At this time we can hardly realize the inestimable value that will attach to the knowledge that we will thus be enabled to lead the world in our commercial trade facilities in having a currency that can offer every advantage in facilitating business transactions with the least friction.

Another feature suggests itself in relation to foreign loans to Governments as well as to individuals, and that is all such loans, with their character and agreements and contracts, should be reported in detail to the State Department when occasions may arise in cases of failure to fulfill their conditions, that proper action can at once be taken as the Government will be a party in interest and can thus greatly limit the danger of loss.

What will also have an important bearing in the successful and safe operation of the central bank will be the organization of a double system of bank examination, one as a check against the other, without the possibility of collusion, and doing away entirely with local bank examiners as permanent residents of the State. A division of the central bank having control and directing them at its discretion to such points as will be deemed safest and best for the work in hand, and no examiner should be permitted to visit any bank but once in any given year, and then to continue all in like manner, so that the danger of collusion with the officers of the bank will be reduced to the minimum.

For the realization of placing these suggestions, which may or may not be deemed practical, much depends—in fact, it altogether depends—upon Congress as a body that may be safely depended upon to grasp the magnitude of the financial demand of the entire county as a whole and its stupendous growth in population and wealth, placing the benefits of all against the greed of the few.

Again, in alluding to the suggestion that all the national banks at present organized should at once unite and merge their entire capital, not only a part, but their entire capital, in the stock of the proposed central national bank, it has been asked with some show of reason what benefits will accrue therefrom. In reply it may be safely stated that it at once assures permanency in the entire system, the chief factor in all successful monetary transactions, with the element of uncertainty almost if not entirely eliminated, and again you are at the same time and at once placed upon the solid and enduring foundation based upon the use of the precious metals for our currency circulation, which is at present in a very precarious condition, dependent alone upon the credit of the Federal Government, and also the fact that the Government, being the principal stockholder, the individual banks will share in its credit and without in the least affecting their individual interests, and at the same time it will add materially to their efficiency in the confidence every depositor will possess that their general supervision by the central bank will serve to secure the safe, conservative management, and thus the general welfare of all the people, directly and indirectly, will be subserved, ully illustrating that the benefit of the many will also accrue to the few.

Above and beyond all personal and combined money interests our public spirit, our patriotic pride and nationalism for the common weal, should impel us to rise above our selfish desires and unite to use all reasonable means in the effort to justify the hope that we should generously sacrifice self in some measure for the good of the whole, which in the final analysis includes the individual as well.

As a final word, it can only be said in defense of these earnest and sincere suggestions in this paper that many things may have been left unstated, as all human effort in any direction is lame and lamentably incomplete, yet taken as a whole it is an immense step to take for the betterment of our present wholly unsatisfactory monetary condition.

What follows has been suggested by the Aldrich and other plans as reported by the United States Monetary Commission, and also is a result of later information growing out of present conditions.

Since this paper was prepared over three years have elapsed, and in the meantime the present chairman of the United States Monetary Commission, after several years of very careful study of our financial condition, has presented two reports to the commission for its consideration. In neither report has any special provision been made or suggested for the actual redemption in gold or silver coin of the notes of national banks, merely stating that 50 per cent of its demand liabilities shall be covered by gold or other lawful money; also that one-third in gold or other lawful money shall be provided for the redemption of the issues of currency, which in no way changes present conditions, thus leaving entirely out of the question the basic principle so frequently stated in this paper, that no notes or currency whatever shall be issued without an equal sum in gold or silver coin shall be at all times on deposit for their redemption. The omission is too glaring not to excite alarm, as the proposed legislation as suggested by the honorable gentleman places our whole financial system in a much worse muddle than ever before in our financial history.

If any change is made at all, it should be the main purpose to so simplify our banking system that no opportunity shall ever again occur to complicate or disturb the business of the country by an undue use of our credit in times of possible financial distress.

The suggestions of the honorable gentleman, from my point of view, make confusion worse confounded.

Again, why should the Government take money from one pocket only to place it in another, with an added expense of 1 per cent as will be the case in disposing of the $730,000,000—new 3 per cent bonds in exchange for the twos now held by the national banks. Is it not quite practicable for the banks to dispose of their present holdings in the open market for gold and silver coin, which can easily be obtained, so that the question of bonds to secure circulation will be entirely eliminated and thus avoid any further trouble? It can not too frequently be iterated and reiterated as to the absolute necessity once and for all time to come as long as our great Government has an existence among the nations of the earth, that our monetary system shall be permanently established on a specie basis. The credit of our Government and of the entire business community will have quite enough to do without making it possible to repeat the experience of the panics of 1837, 1857, 1873, and 1893, and indeed as late as 1907. The people must have short memories, indeed, not to sadly recall at least three of such fatal catastrophes. For the future I claim they can and must be avoided, and it is only a question of willingness on the part of Congress, moved by an unselfish and patriotic purpose to enact such legislation as will place us financially beyond the possibility of repeating the follies just referred to.

If the Government is to actively participate in the managemet of the central bank and indirectly in the affiliated banks, no tax should be required but for the purpose of guaranteeing the safety of the funds of all depositors in all of the national banks as has been clearly indicated previously in this paper.

As the Government is to share in the profits in proportion to the amount of capital invested therein no other tax could in justice be collected. State banks, trust companies, and private banks should be prohibited from issuing currency as is now the law.

Concerning the election of the directorate for the central bank as outlined by the report of the chairman of the commission, there can be no objection to choosing them from financial districts as already outlined in the annual report, page 101, of the Treasurer of the United States by dividing the country into six national bank districts, such districts to be finally in such number as may best serve the common interest. Such a number of directors to be chosen as will cover the entire country, say as many as there are States in the Union, and from that number should be chosen the nine members to constitute the executive board, including those to permanently represent the Government upon it, namely, the Secretary of the Treasury, the Comptroller of the Currency, and the Treasurer of the United States or their authorized representatives, and it does not appear for any valid reason why the Secretary of Commerce and Labor should be a member of the executive board, as the interest of the entire country must be considered, which logically embraces the interest of Commerce and Labor and therefore not entitled to special recognition any more than others of the numerous interests that might just as reasonably receive special recognition. Again there should be but one permanent president of the executive board, and the Secretary of the Treasury should be that person, as it is proposed that the Government interest shall at all times be paramount and in that case should always hold the largest share of the stock in order also to prevent any undue influence in serving any special interest or section.

In regard to reserving certain authority by the whole board of directors not granted to the executive board it should be limited almost entirely to fixing the policy and methods of business from time to time as exigencies may arise demanding the attention of the entire body. In any event, there should be specified dates fixed for the meeting of the entire directorate, when matters pertaining to the general interest of all the national banks could be considered and acted upon. A number of suggestions have been made as to the fairest method of choosing directors in order as much as possible to avoid favoring any particular section or special interest, and it is almost impossible to effect any arrangement that will not create more or less friction. It does not appear to be altogether fair to the banks to choose any person not directly connected with the banks as stockholders and directors, as it can not be thought that the banking interests in any section or community will not at all times consult the welfare of the business public in so far as furnishing funds for legitimate private and public enterprises. From a strictly business point of view no better plan could well be devised than to authorize the directors of all the national banks in each section to choose from their number those required by that section. In that manner they will fairly represent the business public, as it is reasonably certain men well and favorably known and of acknowledged ability and integrity will be chosen. The entire board of directors should be divided into three groups, the first to serve 3 years, the second 6 years, and the third 10 years, all removable for cause. At the expiration of their

respective terms the members found to be equipped for the duties of the 3-year group shall be eligible for election to the 6-year term and those of the second, or 6-year group, shall in like manner be eligible for election to the 10-year group. By this means the entire directorate will at all times be composed of men whose abilities have had the practical test of experience to fit them for the satisfactory performance of the various duties that will devolve upon them. As the Government will have the chief interest in the control of the central bank, the matter of proper compensation of the directors and other officers, as hereinbefore stated, commensurate with the work and responsibilities attaching thereto will be the duty of Congress to fix, and especially so in the cases of the Secretary of the Treasury, Comptroller of the Currency, and Treasurer of the United States, whose salaries are already fixed for their present duties and should be increased in proportion to the new duties and responsibilities to be assumed by them, governed to a great extent by the compensation received at present by the officers of our large banking institutions in our large business centers.

In view of the fact that it is contemplated that the depositor as well as the bill holder shall be absolutely secure, it does not appear why any special provision should be made as to the reserves to be held by the banks for any other purpose than that of supplying local business demands. That important matter should be left to the judgment of the executive board, which should be duly advised of such deposits in the chief financial centers of the country in order that the control and disposition of such deposits shall not serve the purpose of any special interest or locality without the knowledge of the executive board.

The question of emergency currency will thus be entirely avoided and its elasticity made possible by constantly shifting it to the different points of the country where required by current business demands, which as a rule, as at present, is done by calling upon the Treasurer of the United States for special transfer to be used for the movement of the crops and other interests—a custom that has prevailed for the past 40 years or more to my personal knowledge—$50,000,000 to $150,000,000 covered into the Treasury yearly.

It may be again important to call attention to the powers and authority that should be delegated to the executive board of the directorate. They ought not to be limited in cases where the vital financial interests of the country demand instant action in cases of possible crises which may be imminent and requiring instant attention where it would not be possible to secure the authority of the entire board. In short, full plenary powers should be vested in the executive board, for without them such a board would be practically useless, as the real purpose should be to conserve the best interests of the entire country with a view to checking the constant assaults of special interests, which, as we all are aware, are at all times working to secure special advantages.

There are a number of possible contingencies that will arise from time to time which will demand the constant and watchful care of the executive, who should at all times be prepared to meet them successfully.

This duty will appear to be the chief concern of the board to so use the deposits at their disposal as will serve the best interests of the country as a whole, seeing to it that such funds may be placed from time to time in the sections where the exigencies of business require them. An elastic currency will thus settle itself by the wise supervision of the executive board and the proper disposition of currency where and when required.

Too much can not be said in relation to vesting such general powers in the entire directorate and also to the executive board as will permit their going into such details in management as may from time to time arise without awaiting a specific grant of the Congress.

Again, all authority for the suspension of a bank for cause should be vested in the executive board alone, in order to avoid possible local antagonisms or jealousies. The act that bank examinations, which will be conducted as hereinbefore mentioned, should alone determine the necessity for closing the bank for such cause as the law and regulations growing out of them make it imperative and as the facts shall be reported to the executive board by the examiners. If any bank should be closed for cause the entire settlement of its affairs should at once be assumed by the central bank and such bank should again be permitted to resume upon a proper reorganization satisfactory to the central board and when it is found that local conditions require it.

In relation to the admission of State banks and trust companies as suggested in the Aldrich plan, they should be permitted to come into the system only by complying with requirements demanded by all of the membership subject also to the careful inspection of their assets and liabilities, as will be done in the case of all national

banks coming into the organization. Such institutions would cease to be other than national banks.

The suggestion that savings institutions may be attached to the national banking system under certain regulations is manifestly unwise, as it would prove to be the means through which transactions not contemplated in the proposed reorganization of our monetary system and would inevitably lead to complications and temptations to irregular and unlawful operations favoring special interests that it is proposed to entirely avoid in the future.

The Government has already adopted a plan now in operation to encourage a class of our citizens in small savings. I refer to the postal deposit system, which could be very readily utilized by the central national bank to promote the rapidly increasing business of the country. Such being the case, it can not be seen why any further steps should be taken in that direction.

Some objection may reasonably be offered in failing to treat the matter of reorganization more in detail and also as to penalties to be enforced for failure in the proper and legitimate performances of the duties devolving upon the officers of the central national bank and those of the affiliated banks. The reason for the omission is that it is impossible to reach such a result only after the main features of the proposed legislation are in a fair way of adoption by your committee. In any event the present national bank act will enable the committee to formulate such details as the proposed legislation will require aided by the personal assistance of the Comptroller of the Currency, whose practical experience will go far toward correcting any defects which might affect the successful working of the act after its passage and approval.

The all important question of loans by the national and central banks with the character of collateral to be required has called forth comment even by prominent Wall Street operators, one of whom prefers the system mainly in daily use by European bankers of commercial paper arising out of the normal movement of goods from producers to consumers. The practice is altogether right as compared with the use of stock exchange collateral in this country. Yet other factors will enter into the business of loaning money when we consider the immense volume that the complex affairs call forth, the transactions of which embrace not only our own but other countries doing business with us, will compel the use of other securities, particularly when the question of extended periods of time forms the chief factor. In such cases, and there are and will be tens of thousands of them covering the multifarious business of the entire country, the safeguarding of loans is a vital factor in conducting the vastly increased business of the new system, and for that reason the character of the collateral must be determined by the conditions requiring such loans.

In this connection the interest of 6,000,000 farmers whose annual production reaches $8,000,000,000 should by no means be overlooked, and, as has just been noted, provision should be made not alone in their special interest to make it possible to borrow from local national banks on longer time than is permitted in ordinary current commercial transactions and on such securities as farm realty and its products can safely furnish.

The question of guarding the interest of all depositors both great and small has already been discussed in this paper, and the plan suggested will effectually dispose of the danger of loss in case of a possible financial panic, so that the working man and woman as well as the capitalist will rest secure without the fear pressing upon them of the loss of their means.

The plan if adopted will be in the nature of an insurance for the safety of all deposits, as the depositor will have the positive assurance that proper and practical provision will be made to guard such funds beyond the peradventure of a doubt, as the danger of a panic will appear to be quite impossible under the new plan, as such a possibility can be in a large measure anticipated.

Gentlemen, we are come to the parting of the ways, and it devolves upon us which it shall be, whether to continue in the road that we have trav led during the past 100 years, meeting with many pitfalls on the way by overreaching our credit far beyond the boundary line of safety and continually struggling under the incubus of a mixed and irredeemable currency with but slight provision for its final redemption and constantly menaced with almost the daily prospect of a financial panic, needing but the slightest unforeseen cause to bring dire disaster upon the entire country, destroying confidence and credit and involving the industries of every description, thus bringing distress and suffering to the doors of millions of innocent people and carrying its blighting influence far beyond the borders of our own country.

We surely ought to be in a condition at this time to profit by the sad experiences of the recent past and wisely and courageously take the road that invitingly points to assured safety that has been outlined in this paper, weak as the effort may be and lacking in many respects perhaps the lucidity of language that should make the

subject clear to the commonest understanding; yet, notwithstanding its many defects, it is to be hoped enough has been said to enable us to fully grasp its purpose and thus lead us on the solid ground upon which to establish an enduring foundation and upon which to build a permanent financial structure that will at all times and under every trying condition withstand the assaults of every monetary crisis that rash and unscrupulous operators may attempt to create for their own selfish ends.

The work thus briefly touched upon and outlined should be taken up at the earliest moment, because of its vital importance to the entire country, involving as it does its manifold interests, industrial and commercial, present and future.

Then why should not the present Congress take up the work with a full knowledge of its great responsibilities involving as it does the welfare of not only this, but of future generations.

As you are doubtless already familiar with them it is hardly necessary to invite your attention to hundreds of prominent business men regardless of party affiliations all over the country and in the leading industries, and commerce, and noted students of finance, who are strongly urging Congress to take up and perfect a monetary system that shall endure and stand the test of time and experience and thus avoid the danger of possible monetary panics in the future.

Just here let me call your attention to certain statements made recently in the public prints and particularly the press of New York City, to the effect that over half a million of dollars have been subscribed by the banks there and elsewhere for the education of the public in spreading broadcast certain financial literature. We can not fail to draw the inference that the motive is not so much for the better understanding of the proposed legislation to conserve the interests of the public at large as to prejudice our minds in favor of a scheme that will still further bind us to the juggernaut car of special interests. As a rule such, apparently, marvelous generosity does not emanate from the men of big business, without an unseen selfish purpose lying behind it. We should beware of the Greeks bringing gifts. Why delay the good work or wait for another financial cataclysm before being thus compelled to take active steps looking to the creation of a permanent currency system that will withstand the assaults of time and circumstance, but earnestly and manfully let the present Congress assume the duties and responsibilities confronting you and to whom the people of the country are looking hopefully and with confidence for prompt action in taking up this great work and giving to us a monetary system superior to any either in this or any other country, and that will excite the admiration of the world and that the lisping millions in their mothers' arms and generations yet to come, may rise up and call you blest?

Money in circulation in United States coin.

Nov. 1, 1909, gold coin	$598,773,175
Standard silver dollars	74,383,857
Subsidiary silver	142,324,038
Gold certificates	795,205,489
Silver	481,794,889
Gold coin held in Treasury for redemption of L. F. notes	150,000,000
Silver	2,242,481,448
Gold	698,502,784
	1,543,978,664

See page 60, Secretary's Annual Report for 1909.

Circulation Mar. 1, 1909.

[Form 1028.

Division of Loans and Currency:	
Gold coin and silver	$609,988,359
Gold certificates	812,642,179
Standard silver dollars	72,158,899
Silver certificates	471,411,392
Held for redemption L. T. notes	150,000,000
Total	2,246,967,969
Silver coin	674,337,431
Gold coin	1,572,630,538
Fluctuation in 4, reduction in circulation	24,165,353

Amount available for investment in stock of Central National Bank on specie basis.

Money in circulation in United States Mar. 1, 1910.

COIN.

Gold coin and bullion in Treasury	$597,798,938
Gold certificates	817,628,579
Standard silver dollars	72,801,345
Silver certificates	479,237,073
Subsidiary silver coin	142,426,878
Held for redemption of L. T. notes, gold coin	150,000,000
	2,259,892,813

Stock of gold coin and bullion in United States as per repor of the Treasurer of the United States, June 30, 1911

Estimated	$1,753,196,722
Silver coin, standard silver dollars and subsidiary coin	724,640,731
Total gold and silver	2,477,837,453
Held as follows:	
In Treasury—	
Gold bullion	124,278,584
Gold coin	1,039,622,600
In circulation	589,295,538
In Treasury—	
Standard silver dollars	492,587,318
Subsidiary silver	21,185,641
In circulation—	
Standard silver dollars	72,446,049
Subsidiary coin	138,421,723
Total	2,477,837,453
Total stock of currency in circulation June 30, 1911	1,029,927,661
Total of coin and bullion, June 30, 1911	2,477,837,453
Excess of coin and bullion over circulation	1,447,909,792
Available for investment in stock of central national bank:	
Gain since Mar. 1, 1909	12,924,844
Production of gold, calendar year 1908, estimated at	94,560,000
New material used in industrial arts	14,754,945
	79,805,055

Population, 87,496,000; about 90 cents per capita. Production of silver, $28,050,000, about $1.10 per capita.

Amount of gold coin and bullion and silver coin (standard silver dollars and subsidiary).

[Silver available for capitalization for the formation of a central national bank of the United States.]

Gold coin and bullion	$1,415,427,517
Standard silver dollars	552,038,418
Subsidiary silver	142,426,878
Gold coin held in Treasury for redemption of legal-tender notes	150,000,000
	2,259,892,813
Add present national-bank circulation based on United States bonds held as security	660,089,070
	2,919,981,883
Amount capital stock to be authorized	3,000,000,000

Production of gold from United States mines in calendar year 1909 ..	$94,560,000
Used	14,754,945
Available gold coin	79,805,055
Available silver	20,000,000
	99,805,055

Consumption of gold and silver bars in manufacture and in the arts, from and including 1880 to include 1908 (28 years).

Total	$554,309,375
Deduct old material	105,786,494
Total new gold	448,522,881
Yearly average in new gold	16,018,674
Silver used as stated for same time:	
Total	315,112,368
Deduct old material	37,590,827
	277,521,541
Yearly average in new silver	11,254,013
Consumption of world of gold and silver for year 1908:	
Gold	113,996,000
Silver	49,122,542
World coinage from and including 1873 to include 1908:	
Gold	8,011,467,123
Silver	5,177,695,596
Production of gold and silver from mines of the United States, year 1909:	
Gold	94,560,000
Industrial arts (new material)	14,754,945
	79,805,055
Silver	28,050,000

(Thereupon, at 11.10 a. m., the committee adjourned to meet Tuesday, September 16, 1913, at 10 o'clock a. m.)

TUESDAY, SEPTEMBER 16, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10 o'clock a. m.

Present: Senators Owen (chairman), Reed, Pomerene, Shafroth, and Bristow.

The CHAIRMAN. Prof. Sprague, we will be glad to have you give your views with regard to this matter now.

[Prof. Sprague appeared before the committee. His statement has been withheld and will be printed at a later date, at p. 497.]

The CHAIRMAN. The committee will now take a recess until 2.30 o'clock p. m.

(Thereupon, at 12.50 o'clock p. m., the committee took a recess until 2.30 o'clock p m.)

AFTER RECESS.

The CHAIRMAN. Mr. Alling, while our committee is not fully represented at this time, we think we should avail ourselves of the time. Prof. Sprague, we would like to give Mr. Alling an opportunity to be heard. This will not interfere with the examination of yourself at all, because the record will be kept straight. Mr. Alling just had the opportunity to be here, and we would like to hear him in reference to the subject.

Mr. Alling, I wish you would give your full name and your banking connections to the stenographer.

Mr. ALLING. My name is Newton D. Alling, vice president of the National Nassau Bank, New York.

STATEMENT OF NEWTON D. ALLING, VICE PRESIDENT OF THE NATIONAL NASSAU BANK, NEW YORK CITY.

Mr. ALLING. I particularly desire to speak regarding the method provided in this bill of carrying a reserve for the Federal reserve notes, I consider it so vital that it seems to me that it overtops all other things in the bill that might be open to criticism.

Senator REED. What section are you referring to?

Mr. ALLING. Section 17. After providing for the issuing of Federal reserve notes, it says:

> They shall be redeemed in gold or lawful money on demand at the Treasury Department of the United States, in the city of Washington, D. C., or at any Federal reserve bank.

Line 17, page 29, says:

> Whenever any Federal reserve bank shall pay out or disburse Federal reserve notes issued to it as hereinbefore provided, it shall segregate in its own vaults and shall carry to a special reserve account on its books gold or lawful money equal in amount to 33⅓ per cent of the reserve notes so paid out by it, such reserve to be used for the redemption of said reserve notes as presented.

From my point of view, the reserve should be all gold. Besides that, the reserve should be a large quantity of gold and a certain quantity of notes issued against it, and the amount of notes to be increased and diminished as occasion demanded, but the quantity of the gold not to be increased or diminished excepting as conditions would allow us to have more gold.

The CHAIRMAN. Have you your remarks in writing?

Mr. ALLING. I have, Senator. I put them in writing because I thought I could give the matter in more concise form. It will take me about 15 minutes to read it, instead of taking up more time as I would if I attempted to say what I have to say as I go along.

The CHAIRMAN. All right. Read it, Mr. Alling.

Mr. ALLING. In the controversy which has been carried on during the past few years bearing on our present banking and currency system, and its necessary reform to meet modern conditions, two expressions are used which convey a wrong impression to the layman. They are the "mobilization of reserves" and what a currency should be "based on."

What is meant by the mobilization of reserves? Literally, it should mean the massing of reserves of all banks in one, two, or more piles, to be used in places of danger, just as an army is used. But is that what is intended by those who use the term? Are not our bank reserves pretty well mobilized now in New York, Chicago, and St. Louis, and is not that a source of danger instead of strength?

What we want to mobilize is the power of gold. Gold is the cornerstone of our credit, and we all know that there is not enough to go around if all, or even one-half, or a quarter of our people loose their confidence all at once. So what we want to do to strengthen our banking system, in simple terms, is to make $1 of gold do the work of $5 or $10 if necessary. And, in order to accomplish that, all of the gold in the country must be brought into one reservoir and a currency properly issued against it, which currency may be increased or diminished, as occasion demands. This currency would, of course, go into the bank reserves, and through its ability to expand and contract, would relieve the banking situation of that stringency and surplusage which occur at different periods. Instead of a hard and fast issue like our gold certificates are, we should have a gold currency which had some "give" to it. Hence, "mobilization of our reserves" is somewhat of a misnomer. What we need is a quickening of our gold supply.

The other term is what a proposed issue is "based on." A currency must be based on what it is redeemable in. No other suggestion is made than to make it redeemable in gold. The press announces that So-and-so proposed to base the currency on corn or wheat or what not. And that is a very misleading statement. A currency is based on what it is redeemable in, and in the case under consideration, that is gold.

The reserve held is only a certain proportion of the issue, to be sure; but that reserve is held to redeem any part of the issue which may be presented. And that issue stays in circulation because of the credit of the institution or Government which issues it. The amount, over and above the reserve held, may be invested in discounted notes, or loans, or bonds, or stocks, or wheat, or corn, or cotton, and the fact that all of these things may be realized on is due to the management of the institution which contributes to its credit or good will. When a man deposits in a bank which makes a specialty of loaning on cotton drafts, he does not say that his money deposited is based on cotton, but on the general credit of the bank and its good management.

I go thus at length into the use of these two terms because of the confusion which arises from their use. When a Congressman suggests or introduces a bill authorizing banks of issue to loan on corn or potatoes, the term is used by the press that he wants to "base the currency" on corn or on potatoes, and the proletariat take it as meaning that if they present such currency for redemption they will get corn or potatoes.

In the study of the subject of currency reserves and an endeavor to formulate a plan whereby our present financial system may be made to more readily accommodate itself to varying needs, it is essential to keep in mind three underlying facts on which I think we all agree. First, that gold is the standard of value, and our credit instruments, whether currency or otherwise, are all based on it and

subject to ultimate redemption in it. Second, that the retention in the country of a substantial supply of gold at all times is necessary to support our credit. Third, that what gold is not needed or does not find employment will leave the country through the influence of a surplus money supply on interest and exchange rates. And the problem immediately presents itself, in view of the last statement, of how to so arrange our currency and banking system that we shall at all times have an adequate gold reserve. Such a system should be as nearly as possible automatic, and it can be made so through the regulation of the interest rate.

A currency system must be devised which will expand to meet the increased demand during certain seasons and during different periods of years. But it should always have a direct relation to its gold reserve, and whether the volume be large or small in proportion to that reserve its tendency should be to conserve that reserve and not to dissipate it. I can only liken such a currency to a rubber band and the reserve to a bundle of papers within that band. If necessity demand the stretching of the band, it may be done, but the papers remain the same and the increasing tendency of the band to return to its original size as it is stretched further may be likened to the pressure which may be exerted by an increasing interest rate to bring the currency back to its original volume. This currency should be so devised that it represents gold and does not take the place of gold. I think that it is a universally recognized fact that any issue which is given power to do what gold can do does not increase the country's money supply, but simply liberates so much gold for export if there is not a sufficient demand for the increased issue. This is simply an application of Gresham's law, that an inferior circulating medium will drive out a superior one.

So notes will release gold by replacing it, and the more secure they are made by, for instance, having them guaranteed by the Government the more readily they will accomplish that, because they will be more acceptable.

Senator POMERENE. That is, you would have these reserve notes guaranteed by the Government?

Mr. ALLING. No. What I mean to say there is that these notes, whatever notes are issued, the better they are the more secure they are, the more acceptable they are to people by being guaranteed by the Government, or anything like that, the more readily they will displace gold, because the people will accept them in place of gold.

Senator POMERENE. Do I understand from your remark that you approve the guaranteeing of these notes by the Government?

Mr. ALLING. I am not stating right here whether I do or not. I do; but this is part of the——

Senator POMERENE. That answers the question.

Mr. ALLING. This is part of the statement as to the facility with which acceptable currency will displace gold on account of its acceptability; and of course the guaranty of the Government makes it acceptable, unless it is so arranged and so connected with the gold reserve behind it that it represents gold instead of takes the place of gold.

Senator POMERENE. It is always encouraging to me when I see that bankers differ on these subjects.

Mr. ALLING. I had just completed the statement regarding gold being replaced by notes.

So we should exercise the utmost care to be certain that any proposed issue is going to represent gold instead of being a substitute for gold.

I may illustrate this by the gold certificates which represent gold. Let us presume that a currency is started with the same amount of notes outstanding as there is gold reserve behind it, just as our gold certificates have. The volume of notes could gradually be increased until the reserve was only 80 or 70 or even 50 per cent, the actual amount of gold reserve remaining the same, and it would be perfectly safe and sound, provided the country's business required that increase.

This brings us to the currency requirements of any given country, our own in particular. In proportion to the business done a certain amount of the medium of exchange is needed; our citizens carry it in their pockets, business men in their tills, banks in their vaults, etc., and this amount, varying as it does in different seasons and years, is, of course, outstanding. Take the smallest amount which is outstanding at any one time over a period of years and it is safe to say that amount will always be in circulation.

This is what the Germans in their Reichsbank call the "Kontingent," and it is considered as unnecessary to be covered by a coin reserve at any time; as, when the currency is reduced to that minimum volume, it will be at rock-bottom, for there would be such a scarcity of it for daily use and interest rates would be so high that none of it would be presented for redemption.

Hence it is perfectly safe to count on this amount being uncovered by coin and invested all the time. Taking the currency scheme which we considered a moment ago——

Senator REED. What do you call that—the Kontingent?

Mr. ALLING. In the Reichsbank they call it the Kontingent. I think that this is figured about $2 per capita. It was in 1873 or along there when the Reichsbank law was passed.

Taking the currency scheme which we considered a moment ago as an example, wherein the start was made with the same amount of currency outstanding as there was gold held in reserve, we have but to increase the amount of the currency, keeping the gold reserve the same until the amount of the excess currency over the reserve is equal to the amount of money which is always needed even at the lowest ebb, or the Kontingent; and we have the foundation of a scientific and sound currency.

That is, supposing our contingent currency should be, say, 300 millions over and above the silver certificates that are out—those are practically always out—that would make about $700,000,000.

Senator REED. You call them contingent?

Mr. ALLING. I call them contingent. We could issue a gold currency, taking—well, we have about a billion gold certificates. Taking a billion, which belong to the gold certificate holders, and if this is paid into the Federal reserve banks, they could hold that billion, and then issue notes against it up to $1,300,000,000, making 700 millions, which would make that contingent which I spoke of, of 700, added to the 490 millions of silver certificates. Of course, we

should disregard the silver certificates, because they have nothing to do with it.

Senator POMERENE. Your position is this: That with a given gold reserve you could issue practically an unlimited amount of currency, redeemable in gold, provided it was not in excess of the actual needs of the country?

Mr. ALLING. I should say so; of course "unlimited" means a whole lot.

Senator POMERENE. I am expressing an extreme.

Mr. ALLING. I mean in reasonable limits; yes.

Senator REED. In the figures that you just gave I got confused. You state that we could take our present gold reserve——

Mr. ALLING. Well, gold certificates.

Senator REED. Which is something over $1,000,000,000; and we could issue, in addition to that the money which you call this contingent; that is, the money that is in the pockets and the tills, and which you estimated to be at the present time—how much? That is what I did not get.

Mr. ALLING. I hardly meant that as an estimate, Senator. I simply took the amount of the silver certificates which are outstanding and which we must necessarily take, since they are used as part of our contingent, because they are money. I think they amount to about $490,000,000. We will say 500 millions. So that with adding 300 millions, it would be an excess issue of notes over the gold reserve, and it would make 800 millions as a contingent. That would be about $8 per capita, I think.

Senator REED. Then, if I get you rightly, you think that with this gold reserve of a billion dollars we could issue a currency based upon it of a billion 800 million and be safe?

Mr. ALLING. Yes. You are including the gold certificates; yes.

Senator REED. Yes, including the gold certificates.

Mr. ALLING. Yes, sir.

Senator POMERENE. Let me ask you in that connection this question: If I understood you correctly, this so-called Kontingent in the Reichsbank was $2 per capita?

Mr. ALLING. I understood that that was the figure in 1870 or 1872. I think that there are some gentlemen in the room who could say so if I am mistaken. I think it was $2 per capita at the time that the bill which authorized the Reichsbank was started.

Senator POMERENE. What is the per capita circulation in Germany?

Mr. ALLING. I do not know that I could say.

Senator POMERENE. The per capita circulation in America is about $34 now, is it not?

Mr. ALLING. It is. I do not think that in Germany it is that much.

Senator POMERENE. Assuming now that we had substantially this same financial system that they have in Germany, is there any reason why this contingent should be higher or lower than the contingent in Germany?

Mr. ALLING. Well, I should say there was, because we use more money; that is all. The per capita is larger.

Prof. SPRAGUE. There is one very obvious reason that the Reichsbank was issuing no notes at that time under 100 marks. I think I

am right in the denomination. They were all large denomination notes. Consequently, the total that would constantly be required was comparatively small.

Senator REED. The ordinary Dutchman never would have that much money.

Mr. ALLING. The $2 per capita was the Kontingent of the Reichsbank currency. For instance, they had silver currency; how much I could not say; but they still have a silver currency there, and that would correspond to our silver certificates. So we add that on to $2.

Senator POMERENE. Is that a variable quantity?

Mr. ALLING. You mean the silver issue?

Senator POMERENE. Yes.

Mr. ALLING. I doubt it, because this paper naturally would stay in circulation.

Senator SHAFROTH. I have the figures showing the notes in circulation in Germany as 1,735,110,000 marks. A mark is 20 cents.

Mr. ALLING. That is, the Reichsbank and other banks as well.

Senator SHAFROTH. Yes; this is the total circulation. I think the German Empire has about 50,000,000 people. That would be 37 marks per capita, or, divided into our money, it would make about $7. But I think it is more than that. I think it is $12.

Senator SHAFROTH. How much is a mark?

Prof. SPRAGUE. Twenty cents. There are 5 marks to a dollar.

Senator POMERENE. I was trying to figure out in my own mind how much of this so-called contingent currency might be issued as against our gold.

Mr. ALLING. I would not want to state that, because I do not think at the present time I could say offhand what it would be. It would have to be followed out.

Senator SHAFROTH. Do you not think that the bank circulation in the United States—seven hundred and some odd millions of dollars—is all absorbed and necessary in order to comply with this contingent that you spoke of?

Mr. ALLING. Yes, sir; I think it is. And, further, you must recollect, gentlemen, that the figures that I have been giving in answer to questions are more or less examples, to show what I meant; and the figures are not to be taken as accurate.

The CHAIRMAN. We understand that.

Mr. ALLING. At the risk of repetition I will read.

It is only necessary to increase the volume of notes outstanding to meet the demand for more currency at different periods and accompany the increase with a slightly advancing interest rate, to have the most effective elastic currency possible, and always safe, because, as long as the country will absorb the increased issues and pay a stiffening interest rate they will not be presented for redemption. As long as a note issue represents gold and does not take the place of gold, it will not drive gold out of the country.

If a banking house wishes to export gold it will, of course, have to draw currency from its bank and present it for redemption for the gold. But the withdrawal of the currency from circulation, if in any volume, will naturally shorten all banks' reserves and stiffen the interest rate, thus protecting the gold reserve of the currency from further depletion, as there will be no profit in further shipment.

No more impressive example of the difference between a currency which represents gold and one which takes the place of gold could be cited than that of the Treasury notes which were issued under the so-called Sherman Act of July 14, 1890. That act provided for the monthly purchase of 4,500,000 ounces of silver and the payment therefor in Treasury notes which were redeemable in coin, either gold or silver. The bill remained in force three years, during which time $156,000,000 in notes were issued and $160,000,000 net in gold were exported from the country.

We now come to a comparison of such a currency issue as we have been considering with that authorized in the Federal reserve act. The currency issue to which I have drawn your attention is based in the beginning in a large proportionate reserve, and the volume of notes is increased and diminished as needed, without disturbing the reserve—like a rubber band will stretch out and return to its original size when released.

The currency proposed by the reserve act is to have a set reserve of 3 to 1, which is to be found as the currency is issued. The question at once arises, Where will it be when not needed, and from whence will it be obtained when needed? What will be the difference between this method of carrying a reserve for your currency and the selfsame method which we have to-day for a reserve for our national-bank deposits which proves at times so impracticable?

That is, if their deposits increase through loans they have to find an increased reserve, do they not? They always strike a period every so often when they can not do it.

No cash or money is going to lie idle for long. After the Federal reserve banks are established for a time their funds are going to be all employed. If we have not sufficient use for them here, gold will gradually go abroad until an equilibrium is established between the demand for funds and the supply. When that point is reached one of the Federal reserve banks will apply for a rediscount or a loan from the Federal reserve board, which will be granted. The bank will probably be close to its reserve limit. Where is its 33⅓ per cent reserve coming from for this new issue of notes? Still more, is it not an anomaly to make an institution which is borrowing funds carry a reserve against those funds?

The bill requires a reserve bank to carry this 33⅓ per cent reserve against notes issued in lawful money.

I understood from the reports in the papers that it had been changed to gold; but I see in the last reprints that it is still "lawful money." I presume that is right.

Senator SHAFROTH. I think it is "lawful money."

The CHAIRMAN. That is, the last prints.

Mr. ALLING. And this, I might say, still further weakens the currency issue. It will be a currency which takes the place of gold instead of representing gold. Every time the notes are presented for redemption gold will be demanded for shipment to Europe and the less desirable or baser part of the reserve, as economists put it, will be left; and the currency based on that remaining reserve will circulate freely, with the credit of the United States behind it, and will take the place of so much gold. After this operation of sorting gold out has proceeded for a few years, how much gold will have been exported and how much will be left? The case will not be dissimilar

to that of the Sherman Act of 1890, as cited before, and I trust we will not be required to pass through a period similar to that which succeeded the passage of that act.

Therefore, let us impress upon you, gentlemen, with the utmost force the necessity of making this currency redeemable in one metal or coin. Unless we do so we run all the risks of the "endless chain" of 1891, 1892, and 1893, when a note issue which was issuable for one metal and redeemable in another nearly brought this country to the verge of bankruptcy; and when you decide to make the reserve all gold, reverse the method proposed in this bill. That is, instead of finding your reserve as the notes are issued, start with the largest gold reserve you can accumulate with an equal amount of notes issued against it. Then you can increase the issue of notes without disturbing or being disturbed about your reserve. I presume that these notes are to be counted as part of the lawful-money reserve which national banks are required to keep; but the bill does not so state.

Am I right on that? I do not believe that banks are to carry these excepting by implication?

Senator SHAFROTH. I think it is intended that they shall carry bank notes as lawful reserve.

Mr. ALLING. I presume these are to be considered lawful reserve.

Senator SHAFROTH. I so understood it. I do not know that I can point to the exact section that describes that.

The CHAIRMAN. These are the lawful reserves and it is not intended to include these notes.

Mr. ALLING. That is before the act is in full operation?

The CHAIRMAN. It is not intended that these notes shall be included in the reserves.

Mr. ALLING. It is not?

The CHAIRMAN. No. I am speaking now of the original draft of the bill.

Senator SHAFROTH. What section have you there?

Mr. ALLING. I have bank reserves, under section 20:

Five-twelfths of such reserves shall consist of money which national banks may under existing law count as legal reserve—

That is regarding country banks.

Senator SHAFROTH. You think that it ought to be made so that it can act as reserve?

Mr. ALLING. I should say so; yes. That is one method of making them effective.

Senator SHAFROTH. By both country banks and national banks?

Mr. ALLING. I am not in favor of having national banks carry each other's reserves; but these are an institution of the Government.

Senator REED. Do you think that the reserve should be either gold or issuance of paper, either one; or do you think that the reserve ought to be gold?

Mr. ALLING. There are two kinds of reserves that I am talking about. One is the reserve which ordinary banks carry against their deposits. But this paper is not leveled at that.

The CHAIRMAN. Mr. Alling's point is exemplified by the Bank of England, which has in its treasury department an absolute gold reserve outside of a limited amount against the notes, and in the banking department almost entirely the reserves are notes.

Mr. ALLING. Yes; the Bank of England carries its own notes.

Senator POMERENE. You would have this reserve fund gold entirely?

Mr. ALLING. Yes, sir; for the notes.

Senator POMERENE. Of what amount?

Mr. ALLING. If you will permit me, I will just read a little further, Senator, and it will cover that.

Senator SHAFROTH. The reserve you have been speaking of recently has been the reserve which is to be held and kept by the banks for their depositors?

Mr. ALLING. Yes, sir. I presume these notes are to be accounted as part of the lawful money reserve which the national banks will be required to keep, but the bill does not so state.

Senator REED. If you put in the words "deposits reserve," it would make it clearer; and I suggest, as that will be printed, you just put it in.

Mr. ALLING. I have it "national banks" here.

Senator SHAFROTH. Reserves for their deposits.

Mr. ALLING. I have said here:

Lawful money reserve which national banks are required to keep.

Senator SHAFROTH. For their depositors.

Mr. ALLING. National banks as distinguished from Federal reserve banks.

Senator POMERENE. You mean with the member banks under this bill?

Mr. ALLING. Yes, sir.

Senator POMERENE. Would it not make it clearer if you would say "member banks"?

Mr. ALLING. Yes, sir; it would. The word "member," I think, has been put in the bill only recently. I notice quite a number of places where it is put in in place of some other term.

Senator POMERENE. We will understand it, anyhow. It is more clear than what you have there.

Mr. ALLING. At any rate, they should be so authorized to be effective as an elastic currency, and also to offset the withdrawing of $550,000,000 from active use in national-bank reserves, which would be occasioned by their contributions to the capital stock of the Federal banks and their reserve deposits with such banks. It will be necessary for the banks to borrow this money back at once from the Federal reserve banks to prevent a serious monetary stringency.

Let me state here that this $550,000,000 which I have taken is from some statement which was supplied by some official in Washington, and I can not, right now, tell who. But the result is the same, whether it is $550,000,000 or $850,000,000. Supposing the reserve banks are all started inside of a week; $550,000,000 would be paid to them, provided all the national banks became member banks, and 5 per cent of their total individual deposits. It would bring it up to about 5 per cent. That would be in the neighborhood of $450,000,000. Of course, I am leaving out bank deposits, because we do not know just what the report of the national banks would show in the way of bank deposits, due to other national banks, after the bill is in effect.

It will be necessary for the banks to borrow this money back at once from the Federal reserve banks to prevent a serious monetary stringency. You probably all realize what effect withdrawing half

that sum from our circulation would have. Here also can be seen illustrated my contention regarding the method of carrying a reserve for the Federal reserve notes.

The Federal reserve banks will have paid into them, capital, about $100,000,000; deposits, say, $450,000,000. It will be necessary for the national banks to borrow this back at once to prevent a serious stringency. But the Federal reserve banks must hold $150,000,000 reserve against their deposits which they can not loan back. Now, they apply for an issue of Federal reserve notes, but where are they going to get their reserve gold from? They probably could at first exchange their reserve notes for gold with the national banks. But that could not be relied upon at all times. The scheme proposed by the committee of bankers would be a decided improvement over that in the bill. That is, 40 per cent reserve, with a sliding scale of an increasing interest rate down to 33⅓ per cent reserve, as against a flat reserve of 33⅓ per cent in the act. But I do not believe that that would go far enough.

The way to accomplish our purpose would be to make the payments on account of the capital stock of the Federal banks in gold, also the initial or first deposits of reserve money in gold, and this would give us the sum above mentioned, $550,000,000 in gold. A like amount of the reserve notes should be prepared in advance and immediately put in circulation by loaning them back to the banks, in order not to cause a monetary stringency. Then we would have the first condition required in our ideal or scientific currency previously described; that is, an equal amount of gold reserve and notes outstanding.

Senator REED. You seem to take the view that it is pretty good money if you have a gold dollar in your vault, and your vault locked, and a gold certificate out for it. That makes pretty good money?

Mr. ALLING. It makes excellent money; but it is very inelastic.

Senator REED. Some of the bankers said that that was not money at all; it was warehouse certificates.

Mr. ALLING. That is a figure of speech.

Senator REED. I think so, too.

Mr. ALLING. I think they consider it money when they go out and look at it in the teller's cage.

Five hundred and fifty million dollars gold reserve and $550,000,000 in notes outstanding. The notes which I propose to issue against $550,000,000 may be held as reserve by the Federal reserve banks against their deposits, for they will require $150,000,000 for a 3-to-1 reserve against their demand liabilities. At this proposal most economists and students of finance are going to throw up their hands. But why not? They will be equivalent to gold certificates, will they not?

Senator REED. Do you propose to keep that gold locked in those vaults?

Mr. ALLING. As a reserve fund; yes, sir.

Senator REED. And redeem those notes?

Mr. ALLING. Yes.

Prof. SPRAGUE. May I inquire about how the deposits of these banks will be protected if you use up the $550,000,000 which the banks deposit as reserve for $550,000,000 notes?

Mr. ALLING. You would carry the reserve notes just as the Bank of England does.

Prof. SPRAGUE. Yes, but you have lent them to the banks, and you still owe the banks $550,000,000; and you have taken their reserve money and sequestrated it——

Mr. ALLING. I do not necessarily mean they would loan all that back, but what I meant was to loan enough back in order to correct the stringency which would occur, owing to the payment of this money by reserve banks.

Perhaps if I go on in my paper it will make it a little clearer.

Moreover, this plan contemplates a somewhat larger gold reserve against the notes than the act does, so that the ultimate result will be a larger average reserve for the notes and deposits.

That is, the bill now orders them to carry 33⅓ per cent reserve against all demand liabilities, notes, and deposits. By this method we should have at this time, after issuing $550,000,000 reserve notes against $550,000,000 of gold, 100 per cent against our notes; and counting the $550,000,000 against the notes and deposits both you would have 50 per cent. Does that answer your question, Professor?

Prof. SPRAGUE. No; because you have exactly the same amount without that provision in the law. The question narrows itself down to this: Is the management of the reserve bank going to fritter away all of its resources in ordinary times and go down to a 33⅓ per cent basis so it will have nothing available for emergency, or is it not? And if it is going to do that, then the thing is mismanaged; and similarly, it would be the case if you put a 50 per cent requirement in the bill. If you assume that they are going to get down as our ordinary profit-making banks do, in ordinary times, to the bare limits of the minimum requirement, they will have nothing left for emergencies. I suppose it occurred to no one that these reserve banks would in ordinary times get down to this minimum. There is a similar arrangement in connection with the Reichsbank, and only once in 30 years have they come anywhere near the limit of 33⅓.

Mr. ALLING. They have never come very close to it, I think.

Prof. SPRAGUE. They did once, in 1906.

Senator REED. In this way at least you would accumulate $550,000,000 more of gold, and you would get it locked up, which which would not be a hard thing, would it?

Mr. ALLING. Not to my mind. My method of looking at it, of course—and in judging a thing like that it depends a good deal on a man's method of looking at it, on his point of view. It is a good deal like a picture. It depends a good deal on your imagination how much you can see in the picture and how much you do not see. Different people's imaginations lead them to see different things in different ways.

I will continue my paper a little further. It still carries this question a little further, and I think makes the subject open to different comments anyway.

The reserve for the notes should be kept entirely separate and distinct from the reserves held for the deposits in the Federal reserve banks.

That is, it would make the reserve to be held against the notes always secure against whatever might happen to the Federal reserve banks.

In fact, the note reserve should be held by the Federal reserve agent as an agent of the Federal reserve board, and ultimately of the Government, just as he is to hold the securities which are pledged with the Federal reserve board. This would make the reserve always secure against the vicissitudes of the Federal reserve banks.

I have never believed that the responsibility for or issuing power of currency should rest with the same institution which accepts deposits, and especially reserve deposits from banks. The inherent weakness of such a plan, though it is generally preached to-day, is obvious to anyone who will contemplate quietly the effect which this dual responsibility will have on any bank. During a severe financial crisis a bank which issues notes and accepts reserve deposits from other banks is subject to a double strain. Its cash reserve being drawn upon by banks that are endeavoring to replenish their own reserves and perhaps demanding gold and at the same time notes may be presented and gold demanded for export.

Mr. Conant, speaking of the Bank of England, and its experience during the panic of 1847, says:

> Both sides in the discussion of the bill when it was pending in Parliament seemed to have made the incredible blunder of overlooking the fact that gold could be obtained by the presentation of checks. * * * The bank, therefore, saw its bullion decreasing on the one hand and its banking reserve decreasing on the other hand, while gold and notes poured out of the banking department.

To return to our suggestion regarding the issuing of reserve notes: The point I wish to illustrate is that we would have $550,000,000 in notes outstanding, based on a 100 per cent gold reserve, an increase of $100,000,000 in the issue of notes would only reduce our gold reserve to 84 per cent, and by a judicious exchange of the Federal reserve notes for gold with the banks, provided the banks can carry the notes as reserve money, the Federal reserve banks can eventually have a gold fund of nearly one and a half billion dollars against which an issue of $2,000,000,000 in notes will provide an increase of $500,000,000 in circulating medium and a gold reserve at that extreme figure of 75 per cent.

The United States notes should be included in this scheme and called in, and the gold reserves held against them added to the general pile. The national bank notes, according to the terms of the bill, could also be absorbed into the general issue if thought advisable, though I do not personally believe it should be done, as it would result in adding that much reserve money to our circulation, which would cause inflation. The bank note circulation should be limited to the present issue, or $750,000,000, and gradually converted into small denominations—ones, twos, and fives, thus giving national banks the opportunity to increase and diminish the supply of small bills, just as they please, which would be a tremendous advantage. This would eliminate the uncertainty about the United States bonds now owned by national banks and remove that much cause for alarm. Thus, with the silver certificates and bank notes, we would have about $1,200,000,000, which would always be in circulation. This is besides the gold.

Senator Reed, I think, asked a question in reference to that when I was talking about the silver certificates outstanding. He mentioned the bank notes which were also outstanding.

It is now only necessary to increase and diminish the volume of Federal reserve notes to meet the varying demands of business, starting with a very low rate for the first 100 million of reserve notes and raising the rates for every additional issue or raising it any time to prevent exports if the Federal reserve board deemed it necessary. Then we would have a scientific gold currency with sufficient elasticity to it to take up the most aggravated shock which our banking and commercial interests might experience, besides being always ready to accommodate itself to the rise and fall of our seasonal requirements. And why should we not have some such mechanism as this to increase and facilitate, with perfect safety, the usefulness of the stock of gold which circumstances allow us to accumulate? Gold is the measure of value in this country, and it measures values in a comparative way, depending upon the relation which its supply has to the demand for it as a circulating medium and as a basis for the vast credits of our country. We all know that demand varies. Who believes that the gold stored away by nature and reclaimed by man possesses always that fine balance which would make the amount in hand always requisite for the work which it has to do?

Then it is our duty to devise a scheme of currency which shall represent gold with all its power and which shall possess the attributes of enlarging and diminishing its scope whenever necessary.

Senator REED. That embraces the point I thought to elaborate with another witness, and which perhaps is best expressed in the bill which Senator Shafroth introduced, independent of this general bill, which was to retire the gold certificates as fast as they come in and can be gathered up and issue in lieu of them $2 for each one of gold and to treat all other moneys, greenbacks and bank notes, in the same way, so that the Government would have a 50 per cent reserve—assuming the Government does this. And the question was asked then whether if 33 per cent would constitute a reasonably safe gold reserve and we had a 50 per cent reserve we could not increase the circulation of the country in times of necessity by issuing more money down to the point of 33 per cent. It embraces the same idea that you have; that is, of a fixed gold reserve.

Mr. ALLING. Yes, sir; a fixed gold reserve, but the circulation not fixed. Under that bill the circulation would be fixed 2 for 1.

Senator REED. I said to issue more money if necessary down to a point where the reserve would only be 33 per cent. It embraces the same idea that you have expressed, so far as that one feature is concerned—the fixed reserve.

Mr. ALLING. Yes, sir.

Senator REED. Now, I want to ask you if you deem such a plan as that practicable?

Mr. ALLING. I deem it practicable, if you will organize such a method of getting the increased currency into circulation in such a way that it will only go into circulation when needed and be retired when not needed.

Senator REED. Let me spend a minute with you on this. The outlines of this bill I will state as accurately as I can. The proposition was for the Government of the United States as rapidly as gold certificates came into the Treasury, to take that one certificate and issue $2 for $1 against it.

Mr. ALLING. That would make a United States note out of it, with a reserve.

Senator REED. Back of which would be a 50 per cent reserve, and to treat all the other moneys of the Government similarly, using whatever other gold we had to fortify this reserve, so that at the end of the working out of the plan we would have a currency back of which was a 50 per cent gold reserve; that then in the event more money was needed the banks could bring to the Government suitable securities—we will not stop to haggle about what they might be—and that the Government would then receive those securities and continue to use paper money having now back of the paper money the gold reserve and the securities, and that it would continue or might continue that process until they had reached a point where the gold reserve equaled one-third instead of 50 per cent. Would such a plan as that, in your judgment, be a workable plan?

Mr. ALLING. I think your reserve is too low, to start with. If you reduced it to 50 per cent first, as a permanent currency.

Senator REED. Well, let us assume that we would make it——

Mr. ALLING. Seventy-five per cent.

Senator REED. Say 75 per cent.

Mr. ALLING. After you pass 75 you only loan it to banks as they are willing to borrow it and pay a substantial interest rate for it?

Senator REED. Yes.

Mr. ALLING. If such a mechanism should be devised it would be perfectly workable. It would not be any different from a central bank loaning money, except that the Government would be doing it.

Senator REED. Except that the Government retains the complete and absolute control. That would be perfectly safe, in your judgment?

Mr. ALLING. I should say so. I do not see why not. That all depends, of course, on the detail as to the security that is taken; but we will leave that out of it.

Senator REED. We will assume that the Government receives as good securities, as carefully safeguarded, as the banks would receive under a scheme whereby the banks perform this function.

Mr. ALLING. As long as the control of the interest rate was held, as long as the interest rate was increased at the proper period, I do not see that it would be any different from a central bank. A Government bank, in simple terms, simply holds a large reserve and issues notes against it. Of course it has deposits on the side, but the issuing part of it is that it issues notes against the reserve and diminishes or increases the amount of the notes outstanding, and of course decreases the percentage of reserve at the same time. That is the foundation of a central bank, in my opinion.

Senator REED. This plan which you suggest differs radically from the provisions of the Aldrich-Vreeland bill, as I understand it?

Mr. ALLING. Oh, yes.

Senator REED. The Aldrich-Vreeland bill's check upon the amount of currency to be issued is that the longer the currency is out the higher the interest mounts?

Mr. ALLING. Yes.

Senator REED. Whereas, in this plan of yours, your first issue of currency, no matter how it would be issued, unlimited in time and

at a low rate of interest, the second issue of currency would be unlimited in time and at a higher charge to the banks, so that the interest is fixed upon the volume of currency which is out rather than by the time that it is out. There is that radical difference. Do you think that is a better plan?

Mr. ALLING. Yes, sir; that is, provided the hands of the central authority or reserve board are not tied too tight and they are allowed to increase the interest rate sooner, if they see fit. It has got to be left to some one's judgment.

Senator REED. I understand.

Mr. ALLING. I do not know that it can be arbitrarily fixed. I do not think that they can.

Senator REED. But assuming it has a sensible management—I will not say the wisest or the most foolish, but an ordinary prudent management—do you think that would be a practicable scheme?

Mr. ALLING. I should think it would.

Senator REED. I have got an indorsement for your bill now, Senator Shafroth.

Senator SHAFROTH. I am glad to hear it.

Senator REED. I want to pursue this further. I am interested in your paper, Mr. Alling. I want to get whatever additional light I can from it. You spoke about keeping the gold in the country. I do not know that I fully caught your thought on that. Of course we will assume, now, for the sake of illustration, that we have $1,000,000,000 of gold and we issue against it $2,000,000,000 of paper money, and that constitutes the currency. The $1,000,000,000 of gold is locked up; but of course every man having one of these paper dollars can come and demand it at any time. How are you going to prevent that? How are you going to keep the banks?

Mr. ALLING. If there is too much of such money in circulation, you could not prevent its being demanded and exported.

Senator REED. That is to say, if there was $2,000,000,000 of currency out and $1,000,000,000 of reserve, and your $2,000,000,000 was too great an amount to be all employed in the business of the country, then the banks would take that money, of which there was a surplus; the banks would accumulate $1,000,000 of it. You would go down to the Treasurer and get $1,000,000 of gold, and because money was bringing a higher and better rate in England than it was here you would ship that gold over there. Is that the idea?

Mr. ALLING. That is the idea. I only want to correct you in that the bank would not do that. The private banks would do the shipping. Of course that is only a matter of custom.

Senator REED. Some kind of a money changer, whether he is a banker or a private individual.

Mr. ALLING. But the thing of it is, does the interest rate affect that in the end, ultimately?

Senator REED. To make this method practicable, then, this gold reserve would make the reserve higher. It would make the margin of danger less; and, second, when you issued money in excess of the gold, particularly if the banks came in with their securities and wanted an additional currency, you would make your rate so high that they could not afford to take that money at all unless they in turn were able to charge a rate high enough, so that they could do business?

Mr. ALLING. Yes, sir.

Senator REED. Do you think that would be effective at all times?

Mr. ALLING. Why, through periods of years it would, yes; but it might not be effective at one particular time. There might be one particular time when money was so badly needed in Europe, when the demands of trade were so heavy that it would be necessary to export some gold; but through a long period of years and under general conditions the higher interest rate will protect the gold reserve.

Senator REED. But will it do it in the hour of emergency? That is the trouble with the present banking system that is in effect to-day.

Mr. ALLING. In the hour of emergency the interest rate is usually pretty high.

Senator REED. You really think, if I get you rightly, that it would be better if we had this currency or money issued by some power other than the bank itself?

Mr. ALLING. That is my belief; yes.

Senator REED. In other words, if I get you now——

Mr. ALLING. I am not speaking for the bankers generally, of course.

Senator REED. No; I want to get your own opinion. I have had some of these concrete opinions, and I do not know how much they represent the caucus and I do not know how much they represent the man's own judgment. I want to get your judgment. I feel now that with my usual adroitness I have gotten the Senator from Kansas half on my side, just by saying "caucus." [Laughter.]

I take it—indeed, I think you made it very clear—that you think if a bank receives deposits, loans money, and does a general banking business, and does not do anything else, and an entirely separate instrumentality, whether it is governmental or banking, is charged with the duty of keeping a proper gold reserve and with the supervision of the issuance of the money, when the bank's credit may become doubtful, that still does not under those circumstances affect the circulation of the currency at all? That is a somewhat involved question.

Mr. ALLING. Yes; but as I understand it you mean the circulation of currency issued by what?

Senator REED. A separate institution. You did not quite catch what I said.

Mr. ALLING. No.

Senator REED. If the Government issued all the money and was charged with maintaining the gold reserve, and did it rightly, all the banks in the country might go to smash and still the money would be good?

Mr. ALLING. Why, certainly.

Senator REED. Yes. But if you put the issuing of the money and the maintenance of the gold reserve in the banks, and with also the banking powers and privileges, and your belief in the banks became impaired, if credit became shaken in the country, if we had one of these financial chills, it would be likely to shake the faith of the people not only in the solvency of the banks, so far as paying out to their depositors is concerned, but it would shake the faith of the people in the money itself?

Mr. ALLING. Well, under certain circumstances I should say it would shake the confidence of the board of governors of the bank. For instance, let us put it in a concrete form, and we can understand

it. If a bank is carrying 300 millions in reserve deposits of the banks of the country, and at the same time it has issued one billion in notes, and against that it is carrying one reserve as provided in this bill, and there comes a period like in 1907, when banks, in Indiana and everywhere else, and in New York State outside of the city limits, wanted to use some money in their own banks for two reasons—one, they preferred to have it because their community might want it and they wanted to take care of their depositors—and they began to draw their reserve money out of the bank: Supposing they drew 200 millions out of it. There is 200 millions of the gold reserve gone. Just as I cited the quotation there, the governors of the bank sit there and see their bank reserve going down and at the same time they see the reserve of their notes going down.

Senator REED. So you think that the reserve back of the notes ought to be kept over there under that book [indicating], which I will use for the sake of illustration, and the reserves that are back of the deposits ought to be kept over there under that book?

Mr. ALLING. I do.

Senator REED. And the more completely separated those two places are, the better for both?

Mr. ALLING. That is my belief.

Senator REED. Would it not be your judgment, when it comes to issuing money—to issuing this money and conserving this gold reserve—that the Government of the United States better establish an agency for that and let the banks go on and conduct the ordinary business of banking?

Mr. ALLING. I should say so, if we could get the proper machinery for allowing the increased issue to go into circulation. By proper machinery I mean not only care as to the investments, but care as to issuing, so as not to issue too much.

Senator REED. Very well. Suppose that we go back a moment to this present plan, to get a starting point. Under the system that is proposed in this bill we have under consideration—if I do not weary you.

Mr. ALLING. You are not wearying me, if it is in the plan of the committee. I understood that I was not to occupy too much time.

Senator REED. You are an interesting sort of a fellow to me. I like a red-headed man, anyhow. I really mean that in a complimentary way, even though my compliment is poorly stated.

The proposed bill, if carried out, would cause 12 regional banks to be put in operation. Let us discuss one of them.

Am I interfering with some plan that you have, Mr. Chairman?

The CHAIRMAN. No, sir.

Senator REED. We are organizing one of those regional banks. The first thing we put in is an amount equal to 10 per cent of the capitalization of the member banks, and let us say that it amounts to $5,000,000. That much money we have got. The next step is 5 per cent of the deposits of the member banks. That is right, is it not?

Mr. ALLING. Yes, sir.

Senator REED. The deposits of the member banks are to be capitalized at about 8 to 1. Is that correct, approximately?

Mr. ALLING. I think it is. I do not know just what was stated.

Senator SHAFROTH. That is the amount Mr. Forgan said.

Mr. ALLING. I guess it is right, then.

Senator REED. So that you will put into the member bank a sum equal to one-twentieth of the deposit—$5 on the $100?

Mr. ALLING. Yes, sir.

Senator REED. And the deposits are eight times as great as the capitalization. That is correct, I think. So that you have a reserve, now, carried into your central bank, which is in the aggregate only about 6 per cent of the total deposits with these member banks. That is about where you landed, is it not?

Mr. ALLING. I do not know as I have figured it out just that way. You mean that the capital of the Federal reserve bank plus the reserve deposited with it will only be 6 per cent of the total deposits of that particular region of which it is a reserve bank?

Senator REED. Yes, sir. My figures may be wrong; I am just figuring here in my mind.

Mr. ALLING. I should say it would be a lot larger, but I never figured that out. I think it would be more than that.

Senator REED. How much more?

Mr. ALLING. Of course, we are taking an arbitrary statement of 8 to 1 that has no meaning in it whatever, any more than the fact that it may be so all over the United States. The total figures of all the national banks may be eight of deposits to one of capital; but it has no meaning; it only happens to be so; that is all.

Senator REED. But taking the average as it exists to-day, it is likely to be approximately the average for other times. There is about $8 of deposits for $1 of capital. We take that $1 of capital, one-tenth, and we put it over here to make a new bank.

Mr. ALLING. Yes, sir.

Senator REED. And the relation of that capital to the other is 10 to 1. Then we have got deposits in these banks that are equal to 8 times the amount of the entire capital of the member banks?

Mr. ALLING. That, we will say, is $8.

Senator REED. That is $8. Now you take 5 per cent of that amount, and what per cent have you in your member bank of actual reserve?

Mr. ALLING. One-sixteenth. I do not know just what percentage that will be. One-twentieth would be 5 per cent. One sixteenth would be larger than that.

Senator BRISTOW. Between 6 and 7 per cent.

Prof. SPRAGUE. Six and two-thirds.

Senator REED. What does it figure there, Professor?

Prof. SPRAGUE. Between 6 and 7 per cent.

Senator REED. Now you have got the regional bank that has actually paid in in cash an amount which is equal to about 7 per cent of the total deposits of the banks in that region, and that consists of all the resources that bank has, does it not?

Mr. ALLING. The Federal reserve bank, yes.

Senator REED. Every member bank can, and if I understand your statement it would almost be forced, as soon as it had paid into this regional reserve bank the amount required to be paid in, to borrow it back?

Mr. ALLING. Oh, I did not mean to say that every bank would have to do that; but all of them taken together, that amount would

have to be turned back. Many banks would be in such a condition that they can put it in and they will not have to borrow it back. It would be another form of investment for them. But I do not see any difference between putting in this, say $50,000,000, in a Federal reserve bank and putting it into the United States Treasury, which they call locking it up, unless it is borrowed back.

Senator REED. Exactly. So there will be no benefit whatever springing out of this system unless those reserves deposited with the regional bank are actually used. If they do not use them, you have got them locked up, and it is no good?

Mr. ALLING. Yes; I should say so.

Senator REED. The amount of that is, then, as I understand it, that while you solemnly declare it to be the law that a bank shall set aside a certain per cent as a reserve, you add to that:

Provided, however, That it may deposit that over here with another bank and immediately borrow it back and use it.

That is about where we come out, is it not?

Mr. ALLING. Very close to that.

Senator REED. In other words, we have dissipated, so far as the reserve is concerned, that part of the reserve, except that, of course, there is an added security in the fact that the regional bank represents a number of other banks?

Mr. ALLING. Yes, sir.

Senator REED. We have absolutely taken out of the present reserve system that 5 per cent, so far as it is an actual real reserve on hand. That is right, is it not?

Mr. ALLING. It is.

Senator REED. I am very glad to have one man who will just say "yes" and "no," since I have been criticizing the Professor over there.

What other resources is this regional bank going to have besides this money which can be put in and borrowed back and the capital stock? What other resources has it?

Mr. ALLING. It has none except this ability to borrow through the Federal reserves.

Senator REED. To borrow from the Federal Government?

Mr. ALLING. There are Government deposits.

Senator REED. Oh, yes; but the Government deposit is something that Uncle Sam takes down there and contributes to the stability and utility of this bank, is it not?

Mr. ALLING. Yes, sir; if you wish to put it that way.

Senator REED. What else have you to rely on?

Mr. ALLING. No further deposits allowed.

Senator REED. But your final resource—I direct your attention to it by a leading question—in addition to all this is that you can take those notes which you have on hand over to the Federal Treasury or over to the central reserve and get Government notes on it. That is right, is it not?

Mr. ALLING. That is right.

Senator REED. So that if I understand you correctly in this entire scheme which is now outlined in the bill that is before us there is not a single dollar of new money or a single dollar of new security that is added except—well, there is not a single dollar, because the 10 per

cent of its capital stock comes out of the other bank's assets. It is not new money?

Mr. ALLING. Yes, sir.

Senator REED. You have not added a new dollar of actual capital from any source.

Mr. ALLING. I would not say capital. You are using the wrong term. I should say cash.

Senator REED. Actual cash?

Mr. ALLING. Cash is simply transferred from the various member banks into the regional reserve banks to the extent of 7 per cent, we will say.

Senator REED. In other words, you take the shell from under one hat and transfer it to another. You just have one shell but you shift it. I do not mean to speak in any disrespectful sense. I am simply trying to illustrate my thought and I have to go back to my early experience to do that. But you have not added a dollar of capital to the entire banking system, have you? I mean real capital?

Mr. ALLING. No real capital. Of course, there is a great difference between cash and capital to the banker which the average outsider does not realize. I think that everybody sees the point plain enough, but it does not occur to them frequently; that is all.

Senator REED. I wanted to keep to the common acceptation of the terms.

But you do think, of course, I take it, that this system under this proposed bill would have a good deal of strength if the Government moneys were put in and the regional banks could distribute those moneys, and then if the Government would issue money upon such securities as the regional banks furnish, assuming, of course, that the business is properly managed. That would give these regional banks some considerable utility.

Mr. ALLING. Yes; you mean there with reserve notes—Government notes?

Senator REED. And when the Government money was deposited they could take it and use it.

Mr. ALLING. Yes.

Senator REED. That is what really breathes the breath of life into that system, is it not?

Mr. ALLING. I should say that it was almost the whole bill in simple terms, excepting the ability of the Federal reserve banks to establish branches. I think that is part of it—to establish foreign agents. That is the only thing outside of what you have stated.

Senator REED. To establish foreign agents. Of course, that power could be conferred upon member banks now if the Government saw fit to do it.

Mr. ALLING. Yes.

The CHAIRMAN. I would like to say that Mr. Marshall, of New York, is here and he will not be able to be here to-morrow. If we could give him an hour this evening he would appreciate it.

Senator REED. I do not want to interfere with the committee, of course, but I have become very much interested in Mr. Alling's statement and I should like very much to ask him some further questions.

Senator SHAFROTH. How near through are you?

The CHAIRMAN. Mr. Alling has written a very excellent brochure, which I had printed and sent to the members of the committee. It is

on this line. We have copies of it here now and I think it would be just as well to put it into the record.

Senator SHAFROTH (To Mr. Alling). Is that the same as you have read?

Mr. ALLING. Yes; it is upon the same ideas, only that was written some time ago and it is quite divided up.

The CHAIRMAN. It is an interesting matter.

Senator REED. It is very interesting to me.

Senator SHAFROTH. Are you going to be here to-morrow Mr Alling?

Mr. ALLING. No; I have to be in Richmond for a convention to-morrow.

Senator SHAFROTH. Will you come back this way?

Mr. ALLING. I can do that.

Senator REED. Let me ask you just one or two more questions.

Mr. ALLING. I will be glad to make myself available at any time for the committee.

Senator BRISTOW. I feel that we should not curtail our inquiry into this matter from such men as Mr. Alling. I am free to say that I am very much interested in everything he has said. I was also greatly interested in the booklet which he furnished the committee—more than anything I have read on that line. I think we ought to take what time is necessary to get at the bottom of these matters.

The CHAIRMAN. Take for instance Mr. Berry. Mr. Berry is here and would like to be heard Wednesday. Prof. Sprague came down from Harvard a week or two ago and he stayed here several days. He did get to go on the stand but the gentlemen from Chicago took up so much time that he did not finish and he came back this morning to present his views to the committee. I should like to accommodate the gentlemen and let them get away if possible because they have all been invited here by me. Of course I only want to fit in the testimony as well as I can.

Senator BRISTOW. I am glad you have invited these gentlemen and I think we ought to hear them.

Senator REED. It is the old story of having to compel witnesses to wait until a long examination is concluded.

(The statement by Mr. Alling directed to be incorporated in the record is as follows:)

RESERVE AND CURRENCY PROBLEMS—A SUBSTITUTE FOR A CENTRAL BANK.

[By Newton D. Alling, ex-president of the American Institute of Banking and vice president of the National Nassau Bank of New York.]

OVERTURE: IS A CENTRAL OR GOVERNMENT BANK FEASIBLE?

In offering to the interested public this little collection of papers on a subject regarding which so many different opinions are held to-day, over which there has been so much battling in the past, and doubtless for which the future holds an unlimited supply of nostrums yet unborn, the writer has a twofold purpose. One is to show where plain reasoning, without reference to past or present accepted premises may lead us to; and the other is to draw attention to the danger of perfecting a system at the expense of our ideals.

Finance and credit have ever been at once the glory and power, as well as the curse and destruction of governments, as of men. The laws controlling, inevitable as they are, are so delicately poised and so difficult to comprehend that they have been the despair of philosophers and statesmen of the past, not to mention those of the present. What is supposed to be a correction of an evil, turns out to be a curse. What is laughed

to scorn as a foolish nostrum in one age, is in another heralded as the greatest of blessings. And who have usually been furthest from understanding the underlying laws of finance and credit in the past but the bankers themselves? It took Horner, an obscure member of Parliament, to tell the bankers of his day the economical relation between currency and specie, and they did not believe him. But Parliament, which was not composed of bankers, was eventually convinced, passed the necessary legislation, and England was saved from being drained of specie. It took John Sherman, who was no banker, to say that "the way to resume is to resume" and thus restore our currency and save us from a long controversy between bankers, professors, and financial savants.

It seems as though the study of financial laws and results is the Nemesis of those who stray into its uncertain precincts. Those of our day who have ventured to explore its confines appear to the observer to be hopelessly enmeshed in the web of their own logic. They primarily would give us relief from a stringency which occurs in the fall of the year—perfectly natural under the conditions—and they end by promising something which will save us from suffering the consequences of our own financial debauchery, of preventing rotten banks from being found out, and of stopping the plain people, who do not understand such things, from being scared when they think they are going to lose their money. Does any thoughtful man need more to convince him of the foregoing than a careful study of the latest offering, known as the Aldrich plan, will give him? Here we see a man of a very practical turn of mind, naturally direct, after two or three years of exploring the intricacies and winding ways of economic laws and currency and banking problems, finally advocating a system of reserve holding which is the reverse of direct, and hardly seems practical. And most of the students of finance, bankers and professors, are falling in line. The only ones who seem to see its weakness are those who have held aloof and refused to become absorbed in the fascinating study and thus drifting from their original moorings. First it was proposed just to change the basis of national bank currency so as to allow more elasticity. Then it was a sectional gold currency by national banks, as advocated by Congressman Fowler, then a central bank, and now the complicated plan of Senator Aldrich and his committee. Can anyone imagine or measure the politics which would develop in such a system? Every ambitious banker would be laying his pipes to be first on the local board, then on the sectional board, and finally on the central board. Would there be a possibility of exchange of favors for votes? The plan would be a cross between a central bank and individual banks, with many of the inconveniences and drawbacks of both.

To properly consider the subject let us first see what the trouble is. Through natural expansion and contraction of trade there is a shortage of currency and raising of interest rates at certain seasons. This is aside from speculation. The principal cause of this rise in interest rates is that out of town banks draw their reserves from central cities into their own vaults. That means that $1 drawn from a central reserve city ceases to do the work of $2 or $3 as reserve money and only does the work of $1. The abolition of the present reserve system would prevent these violent fluctuations and would necessitate the carrying of the full supply of reserve by all the banks all the time. Probably the answer to this is that there would not be reserve money enough to go around or else there would be a shrinkage in business to match it. So that eliminates such a move, and the suggestion is only offered to help fix the reader's attention on the real issue. It will be noted that the reserves are what are short, hence it is more reserve money which is needed.

We notice in the arguments of to-day reference to our scattered reserves. Does this mean that with a central bank the reserve requirements of our various banks are to be eliminated? Of the actual cash which our banks carry, less than half is gold or gold certificates. What is needed is to have the gold of the country so held that its efficiency may be increased in time of need. That means that currency based on gold should be increased in volume and in proportion to the gold held, and this currency should be held as reserve by the banks to be effective.

For a fuller understanding of the meaning of this, the reader is commended to the two papers on that subject herewith.

Violent panics, like that of 1907, may be caused by shortage in reserve and high interest rates or they may not. The writer thinks not necessarily. Shortage in reserve and high interest rates certainly accompany violent panics. A panic may be caused by a bank failing through internal disorders entirely. Then the people are scared and a currency panic follows naturally. Merchants may allow their credits to become too much extended; a shortage in bank reserves simply brings the trouble to a head and a panic follows. One of our public men has characterised credit as "a state of mind"; then it follows that a panic is a violent state of mind.

We have, then, as the principal fault of our banking system, the periodic scarcity of reserve through currency being drawn from reserve centers and consequent high interest rates. What remedies are suggested? One is through this complicated Aldrich system to allow all national banks to issue currency against their pledged assests. The other is a central bank which would be allowed to issue currency against its credit.

Of the two the central bank plan is far more direct and probably would correct the trouble mentioned, but here we are bound to ask if such an institution would not be productive of evils which would far outweigh its benefits.

We are verging upon times when distrust of anything monopolistic spells its destruction. In fact, the whole body of the Nation is aroused against what it calls the Money Trust. Is Congress, then, through its representatives, going to vote this power into the control of one institution and of a few men? Let its charter be ever so carefully drawn and hedged about with ever so many safeguards it will still be the central arbiter of the delicate financial life of the Nation and will appear to the average man as the moloch of our industrial life. To those of us who are not so prone to fear it as to see its benefits it will have its element of possible danger through a false move or through falling into evil or incompetent hands.

So can we not say with certainty that a charter for such an institution will never be granted by Congress? The spirit which comes up to Washington from all sections of the country, fresh from constituencies full of distrust of the money power, is so imbued with ideas which are the antithesis of a central bank that we are forced to this conclusion. Then why should time be used in its discussion? Why not turn to some more favorable plan which will assuage the currency trouble and against which the foregoing arguments will not prevail?

What other method or principle can we apply to this problem which will solve it and still comply with this latent command of the electorate? Why not let the Treasury do it? Let the people do it themselves. Let the profit revert to the National Government instead of flowing into private coffers and avoid the dangers that are evidenced by this almost universal fear that the money power is falling into the hands of a few.

As an example of how slow all peoples are to grant absolute control of their finances to a small group of men it is only necessary to search the records of any country where any form of popular government exists. The granting of a charter to a central or Government bank is always attended with more or less opposition, except where absolutism holds. The two United States Banks were granted their charters only after considerable discussion, and both were refused an extension. The Bank of France, so recently as 1897, when its charter granted in 1857 expired, was granted a renewal only after prolonged debate. A bill was presented in 1889 and reported by a committee in the Chamber of Deputies in 1891 and was still before the chamber in 1893. The measure was returned with some modification in 1896 and finally became a law November 17, 1897. The bill only extends the charter to 1920 and reserved the right of the legislature to revoke it in the year 1912. At this time the Government bank of Holland, the Nederlandsche Bank, is suing for a renewal of its charter, and fears are expressed that it will not be granted.

Thus we always find that people are loath to hand their financial well-being over to a few men on account of the attendant danger of being exploited, and is this an unreasonable position for them to take, no matter how beneficent may be the intentions of their financial advisers?

Why should we endeavor, against such a sentiment, to establish an institution which is bound to be the subject of controversy during its existence and which will probably be refused a renewal of its charter, as its two predecessors have been?

These conclusions run counter to the accepted doctrines of modern savants of finance. Their arguments are all for taking the power "out of politics," which means out of control of the representatives of the voters; but that is a policy which should not be carried too far if we wish to preserve our institutions. Proper safeguards can be thrown around the issuing of currency to protect it from abuse; in fact, to make it just as responsive to the demands of trade as though issued by a central bank, and it will be far more effective, because it can be made reserve money. Do not think, gentle feader, that this is a legal-tender or "greenback" issue which is suggested; emphatically it is not. The writer does not believe in an unregulated issue of currency or money of any kind. He believes in an issue responsive to trade but not to speculation. He believes in an issue which is sound and based upon a coin or gold reserve and which will strengthen and conserve our banking system without destroying its independence or individuality; an issue which will encourage business, but not throttle or wreck it; an issue the profit on which will accrue to the National Government and not to private interests.

All of this is emphasized because sound-money thinkers are prone to push a man over the line among the barebrains and nostrum doctors if he differs with them in the slightest.

Also to prepare the reader for the three papers which follow, setting forth the writer's views on the currency situation and the simple method of strengthening it in accordance with the lines just laid down.

The reader's attention is called to the fact that these papers were written during 1907-8 and are published now without change. Therefore, many figures given are subject to alteration.

Reference is also made to several currency plans which are more or less obsolete to-day because others have been substituted for them, all of which goes to show the development of the financial mind.

BANK RESERVES: A THESIS ON THE SCIENCE AND RELATION OF CREDIT TO CASH.

[Delivered before New York chapter of American Institute of Banking, November, 1907.]

Owing to conditions prevailing for the past few years the idea has taken shape and spread that the banks, especially the national banks, should be allowed to carry less cash reserve than the law now prescribes, or that the law's limitation should be removed and the reserve left to the judgment of each individual banker. I believe that such a step would be unwise—in fact, a step toward national financial disaster. Rather do I believe that all institutions doing a banking business should be forced by law to carry a reserve equal to that of our national banks, or of our State banks at least.

I also believe that within reasonable limits our country will have specie or gold reserve in its banks of such an amount as they are forced to carry and no more, taking an average over a considerable period of years. That is, if, for the past 40 years the national banks had been allowed to operate with only a 10 per cent reserve, we would have no more specie now in the country than that percentage required, whereas, if all banks had been required in the past to carry 20 per cent, we would have that now and would have accomplished as much commercially and on a firmer basis. This I think I can prove by an appeal to your reason without the use of figures.

We must bear in mind first, that this country and practically all of the commercial countries of the world are upon a gold basis, that every credit instrument which passes in discharge of a debt is to all intents and purposes so many grains or ounces of gold whether it be a gold certificate, Government note, silver certificate, bank note, or a check, the creditor accepts it in perfect faith that if he presents it at the proper place it will be redeemed in that metal, the intrinsic value of which will be equal to the debt which he has canceled. From this foundation is credit built, and on this foundation only can it be sustained. And while this foundation or condition holds the above-named different forms of demand credit are interchangeable and coequal in their use, both with each other, and with gold itself except when some specific law or department or business rule intervenes. They are so interchangeable that Government paper will be used more than gold itself, or bank notes will be used more than either of them, or bank deposits and checks will be used more than any of the others, according to the needs, necessities, and conveniences of the different communities under observation. Having this well in mind and also the fact that gold is not only the standard of value, but always the ultimate basis of credit, and that it must be held somewhere in some proportion, we are equipped for the consideration of our subject.

In its early stages trade was simply barter, or the exchange of one article for another without any medium, value for value. The next step was the use of some coin or metal or trinket which had an intrinsic value as a medium of exchange. The important point is that this medium was supposed to always carry value with it. It was unnecessary to carry the transaction further in order to cash in. And substantially this rule may be said to have held that each transaction was made with coin of value or by actual barter. A promise to pay at some future time might be given, but that promise when it matured would be redeemed with coin, so it amounted to the same thing. What I am trying to impress upon you is that no form of credit money or demand credit was used to any extent.

It remained for John Law to discover the great latent power which lay in demand credit. How it could take the place of coin. How, when it was readily accepted, it multiplied the actual coin in existence many times.

In the United States this demand credit may take the form of the Government's promise to pay on demand, which we call legal tender, or a bank's promise when it is bank currency, or bank credits payable on demand, which are deposits. Of these is demand credit built up when the people are in the state of mind to accept them in lieu of gold or of anything of value.

Please bear in mind that demand credit and time credit are two entirely different things. One is capital invested; the other is liquid capital and is used as currency or money, be it deposits or legal tender. Any use of the term credit hereafter please construe as demand.

Now credit, which we have considered at such length, besides doing the work of gold, has done more. It has builded on to the skies a structure and a sphere of usefulness that metallic money could never accomplish. There is not enough, and its physical difficulties of weight and wear rule it out. But we must never lose sight of the fact that it is the foundation. Credit takes the form of either a government's or a bank's promise to pay, and the bank's promise may be either currency or deposits. There is a legal distinction between the two, but I doubt if there is very much scientific difference between them as volumes of credit or their effect upon prices and interest rates.

A word as to the growth of this credit and the tremendous volume which it may assume. I presume that our Government instead of only $350,000,000 notes or legal tender might have $1,000,000,000 outstanding if it were so minded; also the banks could increase their currency by as much, provided the country would absorb it all. I am simply giving an example of the growth of demand credit; of wealth, if you please, which does not exist. For no man can obtain them except for value, and he parts with them on the same terms, yet they are but a promise.

I know that you have received my proposition to increase greenbacks and bank currency to such proportions not only as a fable but as a dangerous proposition, yet the very same thing has actually been accomplished by deposits in banks.

There were by the last report of the comptroller [1] in the national banks of the country gross deposits of $6,000,000,000 and $4,300,000,000 of individual deposits. In State institutions there were $8,000,000,000, making a total of $14,000,000,000, which is subject to payment at any time, at least presumably so.

I call your attention to these forms of credit to impress upon you the volume to which they may grow, and on what a slender foundation they may be built, and not because I am in any manner opposed to them or do not recognize their usefulness and necessity when properly controlled.

How the first two may be increased—that is, the Government credit or legals and bank currency—is simple and familiar to you all. But how deposits may be increased is a little more intricate, and I will endeavor to show my view of it.

Recollect, please, that I am speaking of the total deposits of all of the banks of the country and not of any one bank. I am not here as an expert on building up a bank's business. The first and natural cause of increase is the profits of the business of the country, of the merchant, the manufacturer, and the farmer. The wage earner and man on salary and professional man all contribute whatever they have left over and above their expenses if deposited in bank. Then there is another form of increase to which the first is a bagatelle, namely, the increase which comes from loans and discounts, and I shall divide this latter form of deposit increase into two classes, namely, the commercial and the speculative. I don't suppose it is necessary for me to explain that when a depositor gets a discount or a loan he increases the deposits of his or another bank by that much. The increase arising from this source when the loans are made to business men who need the proceeds in the regular course of their business enterprise I call a commercial increase. A discount is an advance by a bank upon a deferred payment. The payment presumably will be made anyway at its maturity, and the bank is simply advancing the money to the payee and holding the promise of the payor as security. Just so with a loan to a business man for business purposes, even though a bond or bonds be put up as security. The proceeds will find their way into the regular channels of trade if borrowed for a commercial enterprise, as we are presuming they are, and, moreover, the security is something which has existed for several years and which has been held by the borrower or another for a value equal to if not exceeding the loan.

Now, the other form of increase in deposits arising from loans I call a speculative increase because the loan is made upon a new and perhaps presumptive value which did not exist before. For instance, a stock is selling at 50 on January 1, and a bank will loan, say, up to 40 per cent on its par value. On August 1 that stock may be selling at 150, and banks will loan 140 per cent on the same stock. In other words, the loans and deposits of all banks are increased by 100 per cent of that particular stock. Of course, this is exaggerated. Banks do not loan much on one stock, but when it is mixed in several different loans the result is the same. Here is where the fault of maintaining a fixed margin on collateral loans lies. A banker decides to keep a 15 per cent margin, then if the general security market advances 50 per cent he will

[1] 1907.

loan just that much more on the same collateral. He is doing the very thing which aids a speculative boom. He is increasing credit currency by increasing his loans and deposits. This credit currency or deposit currency is just the same as money, or rather, has the same effect as long as it is accepted. If the same result were produced by printing more money it would be called inflation.

Another form of speculative increase in deposits is the absorption by the banks into their loans of brand new securities. Digestion, I think one of our financiers terms it. These securities are issued by all manner of corporations, railroad, industrial, etc. We will take an example: A man owns a steel plant, we will say, for which he would take two or three millions if he could sell to an individual only. But no, he will capitalize it and sell it, and still own it, which is better. He will bond it and common stock it and preferred stock it to the extent of ten millions, which is modest. He has created seven or eight millions which did not exist before, and this extra is sold and finds its way into the banks as collateral, and what does it do? It swells the loans and deposits. In other words, it has increased our credit currency. But you say that property was worth what he sold it for on a 5 per cent basis. Suppose it was? Suppose it was worth $10,000,000 on a 10 or a 20 per cent basis? The argument is the same. Before it was owned by an individual or individuals. If it was mortgaged it was an old-fashioned bond and mortgage, and there it stopped. But now, by this operation, it has been turned into securities and injected into our credit currency, which it swells by so much, and which it never affected before.

This has been going on for the past 10 years, as you know, to a tremendous extent. Take the buying of a railroad for $40,000,000 and increasing its capitalization to $122,000,000, as was but recently confessed by a financier. Suppose most of these securities are hypothecated. The loans and deposits of all banks are that much larger. Created where they did not exist before. The deposits of the banks are increased by these new securities and the speculative price of these securities is bolstered up by that same increase in deposits. Is it any wonder that the deposits of all our banks have grown so much in the past 10 years that there is apparently not enough cash to afford an adequate reserve? Deposits made from loans on value that did not exist before and which may be merely speculative, and deposits created from loans which are on value which may have existed before but which was not in sufficiently liquid form to be used as collateral. This same argument applies to the produce of the country, which more and more finds its way to the banks as collateral, but in these articles there is some standard of value which may be correctly appraised, nor can the most astute financier make one bushel of wheat appear to be two bushels nor one bale of cotton two bales.

Now we come to the question, do we want to lessen the cash reserves which are held by national banks to support these rapidly increasing deposits? These reserves are 25 per cent in central reserve cities, of which there are 3, 12½ per cent in 40 other cities, and 6 per cent in all other sections of the country. State banks are required to carry a reserve varying from, say, 5 to 15 per cent in different States and sections of a State.

We must not be unmindful of the fact that Government credit figures in this reserve as cash. And let me call your attention to the great growth in the past few years of the deposits of trust companies who carry little or no cash reserve, but who depend upon a balance carried in a national bank to support their deposits. Also other classes of demand deposit institutions, also the intricate system of national banks carrying each other's reserve, which is no reserve at all in time of panic, when all banks are hustling for actual cash. We must bear in mind that when the pinch comes there are but two places where actual cash may be found in any quantity; one is in the vaults of reserve-carrying banks and the other is in the United States Treasury. And the Treasury only has it at such times as it has a surplus income, which it did not have in 1890–1893, and we all know the result. During the prosperous times since 1896 a certain class of banking institutions have built up a tremendous volume of demand deposits while carrying little or no cash reserve, and I hesitate to predict what would happen if there should come a period of financial unrest when the Treasury did not have a surplus.

What would be the effect of abolishing all restrictions upon reserves? Why, every banker would be thinking about dividends, of course; so he would loan all except what he actually needed or what the particular class of business of his bank demanded. We have but to study the reports of institutions doing business without a reserve requirement to realize this or to refresh our memories of the result of its absence during the early history of our country. In Canada, where there are no restrictions, the banks carry less than 8 per cent reserve. What would be the result? Why this increase in deposits from speculation would be carried just that much farther and when the pinch came the banks of New York would find themselves with only 8 instead of 25 per cent. I referred to Canada carrying 8 per cent, and I know some one is going to say, If they

can get along with that why can't we? Canada is nothing but a banking province of the United States. She uses our own denomination of currency. She actually uses our gold,[1] having no gold mints of her own, and I have repeatedly maintained, and so state again, that if it were not for her proximity to a country which has kept a substantial cash reserve Canada could not for long have continued on so slender a basis. Only in the past year (October, 1906), when the Ontario Bank failed, $5,000,000 in gold were shipped from New York to Toronto for need. I submit, what would she have done if New York were not so handy?

If reserve requirements are lowered or abolished, deposits may increase until a stringency is felt at the lower level of reserve. Or suppose that bankers having more liberty can not loan all their available funds and there is a little competition and interest rates go down. What is going to happen? Why, some of that reserve will be shipped away; gold will leave the country, and it will continue to go until the reserve gets down to what the average banker considers a working balance, and then when the squeeze comes where will we be?

The question will arise here, What will the average banker consider a good percentage for reserves? I think that it would be pretty low for himself and high for others when the sailing was smooth and the reverse when it was rough. I think that my contention that gold would leave the country is sound, as all maintain that a plethora of loanable funds results in gold shipments. So we come ultimately to the proposition that the country will carry such a specie reserve as it is forced to, and no more. This brings us to the parting of the ways between individual gain and public policy. On one side we have those who argue that it is not right for the business prosperity to be interfered with by a set cash reserve, which results in a high interest rate when the limit is reached; on the other side we have those who contend that it is absolutely necessary that a certain stock of gold be kept in the country to support the credit of the banks and ultimately that of the Government; that this growing credit, which does the work of gold so much better than gold itself could do it, would gradually encroach upon it more and more until we would suddenly awake to the knowledge that our stock had been so depleted that it was impossible to retrieve without going through the throes of a most disastrous panic.

We have but to look back a few months ago, while Mr. Shaw was Secretary, when New York banks were bidding in London against the Bank of England for the floating gold in that market, to realize that this is true. Why were the New York banks so anxious to get that gold? It was because they were at the limit of their reserve allowed by law and they had to replenish it or cut down their loans and deposits. So there is gold now in the reserves of the country which would not be here if it were not for the reserve requirement. Can you imagine the result if the reserve requirement had suddenly been abolished at that time? Would not some of our gold have been possibly shipped abroad as the result of the bidding on the part of the Bank of England? And why was the Bank of England bidding for gold to replenish her reserve when it is subject to no reserve requirement? The answer is to explain the difference between the banking and financial situation in this country and in England and France and Germany. Whereas we have over 6,000 individual national banks and as many more State banks, each with the first motive to earn as large dividends as possible, in these countries there is one central bank, which is a quasi-Government institution and which is responsible for the reserve of the country.

And their first motive is not the paying of dividends but the public weal and they have on their boards of directors the most accomplished and experienced bankers the realm, who are continually feeling the pulse of their country's business and who at the slightest sign of approaching danger prepare to meet it regardless of cost and dividends, not only for themselves, but for all bankers in their Kingdom. So they perform a sort of paternal office, and the carrying of a reserve is left to them without a hard and fast rule, but the result is the same, for they never hesitate to raise the interest rate if they want to stop gold from going out of the country or bring it in. With our 6,000 national banks we have to attain the same object, only with a fixed rule; that is, for the privilege of existence and of issuing circulation they are to carry the necessary reserve of the country.

Panics as a phenomenon are the result of the growth of credit. Without credit there would be no panics. I think that is a self-evident proposition. Any condition which will lead to a loss of confidence in ultimate payment will lead to a panic. The panic will be checked at once if all demands are promptly met and confidence restored. Secretary Sherman said at the time of resumption of specie payments that "the way to resume is to resume." And at once when that was done the Government's promises went to par with gold.

[1] Canada has begun coining her own gold only since 1910.

There is a great difference between the time when an individual bank is in difficulties and when all the banks of the country are short of funds. I have heard a great many arguments in favor of a financial institution carrying some good bonds as a part of its reserve, and that is very sound if you contemplate a time when only one particular bank is short of funds, as the bank may readily sell or hypothecate them, and thereby strengthen its cash reserve at very short notice. But at a time when every bank is husbanding its cash reserve they can only be sold at a great sacrifice and probably not hypothecated at all, and in either case the proceeds must come from the vaults of another bank, so that the general situation is not helped at all. The same may be said for the proposition to carry reserve as a deposit in another bank. The suggestion to use clearing-house certificates at a time when interest rates are going up is simply fostering a bad condition. It is right to use clearing-house certificates if perfectly sound institutions find it impossible to meet their obligations otherwise. But it is wrong to use them before such a condition arrives. In other words, let us use any good method of stretching credit to help us out of a panic, but not to help us into one.

It needs little imagination to see that the further credit is stretched the worse will be the break when it does come.

Another thing which should be noted is that it may not serve one particular bank to maintain a very large cash reserve if all of its neighbors carry a small one, for at the time of need it may find its reserve melting away to appear in other vaults as the result of the calling of loans.

Now a word as to interest rates. We hear a great deal of the fluctuation of interest rates in this country as compared with those of Europe. First, we must recollect that America is not Europe; that the conditions are different here. This is a new country and its development has been very rapid. We are building where there has never been any building before, whereas Europe has been populated for centuries. Improvements there mean reconstruction, while here they mean new enterprises. This is all focused in New York, where the remarkable interest fluctuations occur, owing to the reserve system of the national banks.

Then again, the great State banks of England and Europe, overseeing the banking business of their respective countries, as they do, in a paternal sort of way, are enabled to guard the reserve and steady the interest rate as we do not and can not. I have heard it stated and believe it to be true that the banks of England and France make a practice of borrowing money in the open market when rates are very low. These same funds they loan out again when the rate goes beyond what they consider a reasonable figure. The result is, of course, a steadying of the rate, but that is not altogether the reason for doing it. The ulterior object is two-fold: First, to discourage speculation; second, to protect their reserves by checking gold shipments, both of which are encouraged by a low interest rate. In this country a low rate may prevail for a considerable period; then when speculation is at high tide the rate goes up and checks it, and the rate goes up because the reserve limit has been reached. If our friends who propose abolishing a reserve requirement had their way the speculation would go on until there was comparatively no reserve, and then the rates would go up just the same.

That our present reserve requirement is too rigid is not true, because it does not deny a bank the privilege of using its reserve, but does deny the privilege of making any new loans, though it may renew until its position is regained. That there is an element of weakness in carrying part of the reserve in another bank I will admit, and that is all the more reason why we should be very jealous of any proposition to lessen the actual cash reserve now required.

Now, I have endeavored to prove that, with our banking system, deposits—and, so, credit currency—could go on increasing indefinitely through the loans made on the increasing values of securities and on new securities and values which were not previously available as collateral, unless there were some check, such as our reserve requirement; that without this requirement the speculative growth would proceed until the same predicament obtained only at a lower level of reserve, which would be fraught with great danger.

I have endeavored to prove that it is to the interest of the country and the banking system as a whole, mind you, and not for an individual bank, and that we could not rely upon banks as individuals to maintain it on account of competition and dividends; that without this requirement speculation would go unchecked or gold would be exported—in either case the reserve would be lowered; that under present conditions a country will have such a reserve as it is forced to have, and no more.

It is not necessary for me to prove that this is a great country, that it has seen an era of wonderful prosperity, and that the soundness of this amazing growth is beyond question. I firmly believe that one of the contributing causes which

has enabled us in the past 40 years to meet the most trying times without a serious setback was this same hard-and-fast rule which, though it may have caused us to slow up a bit at times, kept in the vault of every national bank, at least, throughout the country a reasonable amount of actual reserve.

A SUBSTITUTE FOR A CENTRAL BANK: HOW ELASTICITY IN OUR CURRENCY CAN BE OBTAINED WITHOUT SACRIFICING OUR INDEPENDENCE.

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In the consideration of currency changes or any other proposals to alter the laws existent governing demand credit and its relation to the metal in which it is redeemable, or the business of the country in which it plays an important part by either increasing its volume or by altering its method of issue or granting new powers to the institutions which are authorized to issue it, there are certain laws generally recognized and elemental which should ever be kept before the mind. One of the first and simplest of these which applies to coin alone and to credit and coin combined is that an inferior coin or money will always drive out a superior one. This rule extends itself into the realms of credit in that credit instruments and bank credits will displace coin if encouraged to do so by law because they are not so costly. For instance, banking institutions will as a general proposition endeavor to conduct their business during good times on the lowest reserve that the law will allow down to a certain point. This means that all the natural expansion of trade is being accommodated by credit instead of specie and if there is not enough expansion of business to use the credit, gold shipments are encouraged by a low rate of interest. The over-issue of bank notes under our present bond-secured system has the same effect. The free coinage of silver at 16 to 1 would have had the same effect. This general rule may be summarized by the statement that our country will have such a coin reserve as it is forced to have and no more.

This rule applies not alone to the relation which bank deposits bear to bank reserve, but far more does it apply to the relation which any currency issue may have to the specie reserve. By specie I, of course, mean gold coin. Any currency issued in great quantity which is not directly and solely redeemable in gold and the quantity of which is not in some way regulated by the volume of coin in hand is dangerous and will ultimately lead to trouble by displacing that coin. In other words, a sound currency in a country which only recognizes the gold standard, and that is what we are considering, is one which represents gold and not one that displaces gold or can be used instead of gold. A currency redeemable in lawful money instead of gold and whose volume is not regulated by a gold reserve the better secured it is and the more acceptable it is as money, will the more readily displace gold. Such a conclusion is arrived at by application of the before-mentioned axiom that an inferior and cheaper form of money will always displace a superior and more expensive one if it is accepted. And the more secure it is made and hence the more acceptable it is the more readily it will displace gold.

This danger is at once eliminated if the currency is made the representative of gold and its volume regulated by the supply of gold reserve back of it. Thus the advocate of a bond-secured emergency currency in defeating his own ends. If he makes it redeemable in any lawful money the more secure it is and hence more acceptable the more dangerous it is. It is not necessary that a currency should be issued dollar for dollar as our gold certificates are. It may be allowed to exceed the gold by such a percentage as the country will absorb and needs, but there should be a limit, either fixed as in the case of the Bank of England, or with a heavy interest tax beyond a certain limit.

In all the discussions which are heard in reference to currency plans we hear little relative to the gold redemption and the effect it will have upon our specie reserve and quantities of type have been used about the security which would be comparatively valueless if our gold is all encouraged to leave the country. At the risk of repetition we will review the accepted economic theory of the natural laws which govern a country's medium of exchange or money and its relation to business. First, the proportion of money in circulation to the demand for it for the needs of commerce has its effect upon prices. If the volume of currency is increased prices go up; if decreased prices go down. The former causes what is popularly known as good times and the latter hard times.

I do not mean to say that changes in the amount of currency are accountable for the whole of business prosperity or the reverse, but other things being equal a constant increase in the volume of currency will cause prices of all commodities to go up because the relative value of the currency is going down. Simply a question of supply and

demand. It induces a false idea of prosperity, and all think they are getting rich. It is commonly called inflation.

When the inflation is corrected the supply of currency is lessened, its value or purchasing power increases, and prices of general commodities go down, and all complain of hard times. This accounts for the popularity of all schemes in the past for increasing the currency supply, such as the State banking system of note issue, the greenback craze, and later, in our own times, the free coinage of silver.

It really is curious, when one looks at it in this light, to see the very men who fought so valiantly 10 years ago against that latter proposition now lined up for a cure-all which is not so very much different. As I understand it, silver if coined at 16 to 1 was to be backed by the Government's credit, and so is the proposed currency. Of course, the question of the standard came in the former, which we are not considering in this paper, although I am not so sure that it does not enter into the question.

In considering this question of the increase of currency and its effect upon prices, let us decide what we shall call currency. The economists split a great many hairs over the words "currency" and "money," but I do not intend to. I shall say anything in the form of demand credit which is used for the purchase of goods or the payment of debts affects prices of commodities in general as its volume increases or diminishes. Thus, we include all forms of so-called money, and bank deposits as well. I believe that a great many of our financial writers have allowed this to escape them, for while they have accepted the rule of increase and decrease in supply affecting prices as applied to money proper, they have failed to include bank deposits, but have set them over in a class by themselves. When we admit this proposition we have a ready explanation for the tremendous increase in prices all along the line in the past 10 years, for we have but to turn to the reports of the banking departments in this country to see a steady increase in the bank deposits in the same period. And in this rise in prices and increase in deposits we see some explanation for the overprosperity from which we have suffered.

Now, as to this increase in deposits, has it been a legitimate growth or has it been too much fostered by our laws and therefore unnatural? I think that it is unnatural, because for one reason the banks of the country as a whole have not been required to carry a sufficient reserve against those deposits. Not every individual banking institution, but a great many of them, so that the average for the whole is too low. Please bear in mind my statement earlier in this paper that the whole country would have such a cash reserve as it was forced to carry and no more. So that if all the banking institutions had as a whole been required to carry a little more reserve one of two things would have come to pass—either there would be more reserve in the country or the total of the deposits would have been smaller.

I think that it would have been a little of each, just sufficient to have prevented the most acute phase of the panic of October last, which in the fewest words was a scramble on the part of institutions which had been carrying little or no reserve to get it and a counter scramble on the part of banks which had been carrying a fair reserve to keep what they had. In order to make my position clear let us analyze the reserve situation in this country as it is. In the national-banking system the banks in the three central reserve cities carry 25 per cent of their net deposits in cash. In 40 reserve cities the national banks carry 12½ per cent in cash and another 12½ per cent in central reserve cities. All national banks outside of those 43 cities carry 6 per cent in cash and 9 per cent in reserve cities. Naturally every country banker looks upon his funds in the reserve cities which go to make his 9 per cent so-called reserve as so much cash, and during good times goes the even tenor of his way and conducts his bank accordingly.

But when the situation becomes uncertain and he finds that his depositors are uneasy and may draw their balances—and when they draw he knows that they will want cash and not a New York draft—what is more natural than for him to gradually reduce his 9 per cent in a distant city and increase his real reserve in his own vault. What banker is there in New York who would not do the same under similar conditions? The fault lies with the system and not with our country correspondents.

The fault lies with the system, I say, of making a statutory reserve of something which is only a bank credit. It would be far better to require the country banks to carry only 10 per cent in cash and stop there. For aside from the psychological effect of a banker and the whole community resting in the assurance for years that something was cash which was not and suddenly waking up to the fact, the banks as individuals would be conducted different and would provide for contingencies instead of expecting some other bank to do it for them. As far as each individual bank is concerned, what is the difference, as reserve, between a balance in another bank and a call loan with collateral margined up to 25 per cent? And if there are any odds, are they not

in favor of the latter? What else is responsible for the skyrocketing of interest rates in New York but this reserve system? When, on account of the crop movement or some other period of activity, 6,000 national banks in the country decide to convert some of their phantom reserve into real reserve in their own vaults, it certainly will cause a shortage if only 50 banks have to supply their wants. You can figure it for yourselves. If they draw only $1,000 each, it makes $6,000,000. Reversing this procedure, we readily see the effect of 6,000 banks suddenly returning their reserves to New York and causing an abundance of loanable funds and low interest rates, and probably gold shipments.

The national banks are by no means alone responsible for this condition, as the same privileges are granted to State banks. Trust companies have been allowed to go with no reserve at all up to within two years ago in this State, and though I am not familiar with the laws in other States I understand that they are very liberal the wrong way. Right in New York City, State banks have been allowed to carry a balance in a trust company which carried less than 2 per cent cash reserve and call that balance a reserve. I am repeating all these facts to impress upon you the seriousness of this system of calling something a reserve by law which is not a reserve, and in order that you may see how gross deposits have been increased or our actual cash reserve diminished by too lenient laws and customs, and also to draw attention to the causes of some of our financial ills, which perhaps are not all traceable to a defective currency system.

After this brief review of conditions we come to the salient questions in regard to any proposed currency plan. What power and what limitations should it have and what is the want which it is to supply? As to power, should it have legal-tender value? Should it be available as bank reserve? Should it be redeemable in gold alone with a certain gold reserve back of it or redeemable in any lawful money? As to the need for it, is it for bank reserve that it is really needed, or is it for hand-to-hand money? Many may think this last is a senseless question because a currency issued for the purpose of hand-to-hand money would release a certain amount of reserve money to be held by the banks, but I do not think it is so and therefore I shall answer that question first. I feel very strongly that we could not safely have much more nonreserve money in circulation than we have now in the form of our present bank circulation and if there is any increase it should be reserve money. The amount of such money in our circulation now is very noticeable even after the very slight increase of last fall and would impose a very heavy burden on our national banks which are forced to receive it for the credit of their depositors if the law requiring it to be thrown out of their reserve money was strictly enforced. What would be the condition now if 300 or 500 millions extra had been issued according to the terms of the Aldrich bill? The talk about "hand-to-hand" money and the demand for it strikes me as illogical. What bank in the interior is going to pay expressage on any quantity of currency which will be charged up against its legal reserve in New York or Chicago and will be useless as reserve when it arrives in its own vaults? Suppose such so-called "hand-to-hand" money is paid out to the unsuspecting farmer and mechanic, it soon finds its way back to the banks and yet is useless as reserve.

The need is for both "hand-to-hand" money and for reserve money. The periodical shortage of small bills—that is, tens and smaller bills—is recognized by all bankmen in this city and especially the paying tellers. I shall refer to that later. The necessity for more reserve money for the banks has also been pretty forcibly impressed upon bankers during the past autumn, and, in fact, is so demonstrated to a more or less degree every autumn. The importation of gold is by way of satisfying this demand. And let me say here, and impress upon you the care with which this phase of the subject should be approached: Would it be a sound proposition to issue a reserve money which would relieve the banks of the strain which comes upon them when their reserves are too low because of the growth of credit? This strain results in the importation of gold through the effect it has upon the rates of exchange, and any plan which is going to relieve us entirely of that necessity is going to result in our demand credit growing as the country grows, without the natural increase of specie reserve which should go with it. In other words, our demand credit as it grows will be more and more based upon a fictitious reserve until we go beyond the point of safety. I can only liken this situation in our country to a rapidly growing boy who is subject to growing pains, which are nature's relays to resupply his reserve force on the road to new strength.

Our country is a rapidly growing one. The system of banking, and hence of credit, is developed here in its highest and most potent form, but the growth can not go on forever without the reserve on which it is based growing in proportion. And the tightening of money rates is the signal that it is due. We are having our financial growing pains. And the person who would recommend any scheme which will entirely remove that very natural phenomenon I can only liken to the quack

who would give that boy whisky for his troubles. He would probably forget the pains, but how about his reserve force?

This is illustrated by the method of calculating how large a volume of emergency currency should be issued under the Aldrich bill. The total is taken of all the clearing-house certificates recently issued, which is perhaps proper, but to this is added the total gold importations during October and November. Verily, do these people expect never to have any more gold importations, but to issue paper money instead?

Gold importations are popularly supposed to represent the balance of trade, but exchange dealers and those who have studied the statistics of exports and imports will tell you they do not. It is the interest rate prevailing which does the business. Take the reports of the Secretary of the Treasury from 1896 to date. See the great increase of our gold holdings up to 1900. Then see them almost stand still from there on. What is the cause of the change? In 1900 a law went into effect allowing national banks of $25,000 capital to be organized, also allowing national banks to issue currency up to par of the bonds deposited. That was sufficient to give an impetus to the issue of national-bank notes. Since then, instead of adding to our gold reserve we have been adding to our bank circulation. And let me say here that though national banks can not figure bank notes in their reserve, I believe that it is done a great deal. Not intentionally, but because it is a physical impossibility in the rush of business to sort different bills of the same denomination.

We hear it stated again and again that we do not make the full use of our gold. That is, that we hold entirely too much in proportion to the amount of credit which it supports. With this statement I take issue. If the total of gold coin held by the banks and Treasury is compared to the vast superstructure of credit reared upon it, consisting of bank deposits, bank notes, and the Government's own credit instruments, I think it will be found that the percentage will compare very favorably or unfavorably, rather, to that of European countries. The tendency seems to be, because of the excellent credit of our National Government, to look upon its promises to pay as good as gold, or rather, as the same as gold. If the Government will guarantee any bank circulation, or even deposits, the impression seems to be that that settles it. There is no need to pursue the subject further. A cautious business man thinks many times before adding his name as guarantor to any obligation, no matter how remote the possibility of his ever being forced to pay. Why should our Government rush into any such tremendous liability as guaranteeing an asset currency, or, as some propose, bank deposits, which is ludicrous, both because of the possibility of the Government's being forced into bankruptcy, and because such a guaranty would remove all care and safeguards which a depositor takes in selecting his bank, and therefore give the rogues in the business a free hand, and ultimately result in the wildest era of speculation we have ever known. If the Government should assume any such tremendous obligation what would be the result if we had a period of heavy gold exportation, such as took place from 1889–1893, when the effort to support less than $100,000,000 of its own obligations in the form of Treasury coin notes shook its credit to the very foundation? Paper is not gold. A promise is not gold, however high the credit of the promisor; and until so-called economists realize this in considering any measures affecting demand credit they are going astray.

A currency to be sound should, if we are going to remain upon a gold basis, first, be based upon gold, redeemable in gold only, never allowed to go beyond a certain percentage without a heavy interest rate, which will either bring gold into the country or reduce the volume of the currency. The credit of the Government is only good so far as our belief in its ability to produce the gold to redeem the currency goes. And if through ill-advised legislation our country's reserve is depleted and credit money substituted, we shall have to experience a similar, if not a worse, trial than that of 1893, and we shall not have the satisfaction of laying it to the free silverites or tariff reformers. The sound currency of which I speak could, of course, most conveniently be issued by a central bank. Such currency would be redeemable in gold on demand, not less than 50 per cent of which should be held as a reserve against the issue of notes, but usually a much higher percentage. Such a currency should be carried as a reserve by other banks.

It is easy to see how such a currency would protect its own reserve automatically. If gold is shipped abroad, the shipper must draw some of these central-bank notes from his own bank, in order to get the specie. This results at once in a lowering of the reserve of the bank from which he draws the notes, and a stiffening of the interest rate, which helps to check further shipments. The reverse is true of gold imports. This rule applies now, for we have much the same results from the Government's gold certificates and legal tender only because of the diversity of our currency; other forms of money, especially national-bank notes, slide in and take the place of the gold certificates and the effect of its withdrawal from circulation is not so apparent. Also, the

alternate withdrawal and returning by country banks of their reserve deposits in New York destroys the effect.

The action, benefits, and arguments in favor of a central bank are diametrically opposed to those to be applied to a currency issue on the part of our present national banks. Yet, curiously enough, we hear all currency reformers start off as in favor of a central bank first, and next of an increased issue by our national banks. They cite the Government banks of England, France, and Germany in support of their arguments; yet the currency issues of those banks bear no resemblance to the proposed issues in this country in their fundamental qualities. First, it has been the unified policy of those countries to do away with all banks of issue but the one central bank, and that is practically an accomplished fact in all three countries. Here it is proposed to grant the privilege to 7,000 banks and as many more as come into existence. Second, their issues are held as legal reserve by all other banks. Here they are not to be. Third, those issues are made against a very large coin reserve, amounting sometimes to 80 per cent, are solely redeemable in coin, and are for large amounts only in Germany and England. Here the partisans differ, a few wanting them redeemable in gold, most in money, and as to reserve some go so far as to want them to be held as such. Fourth, as to the emergency feature which is supposed to be copied after that of the Reichsbank of Germany; that is, turned upside down. The Reichsbank is granted the privilege of issuing a certain volume of notes, the limit of which has never been reached. A certain percentage of the notes issued may be invested in Government funds or first-class bills; the remainder must be covered by coin. You will note that they reverse our method of making a reserve. We make the reserve a percentage of the total; they make the investment a percentage of the total. At first, one would think that would amount to the same thing, but it does not when it comes to the emergency issue. The emergency issue comes about in this way: If the percentage of the issue which is invested is greater than the law allows, that is an emergency issue. In other words, the emergency issue begins when the volume of notes falls below that amount of which the investments held would make just the legal percentage.

The effect of this is that when the bank increases its coin reserve by importation the emergency issue disappears, although the volume of notes has not been lessened but increased, nor the amount of investments cut down. The further effect is to tax the bank for having a short reserve, a very cunning way of making the bank take good care of it. I will not carry the comparison further, but if anyone can find in any of the proposed emergency issues on this side of the water any semblance of a feature calculated to really protect our gold reserve instead of dissipate it, we want to hear it.

A proper currency issue should therefore be based directly upon gold with a substantial coin reserve, and the relation between the volume of notes outstanding and the actual coin reserve held against it so regulated that a rise in the interest rate will increase the percentage of reserve either by decreasing the volume of notes or increasing the coin holdings through importations. For instance, if we had $1,000,000,000 of such notes outstanding and $600,000,000 of coin reserve against them, which would be 60 per cent, and that percentage was considered too small a rise in the interest rates, would, through curtailing of loans, decrease the volume of notes or increase the coin reserve through importation. This can not be accomplished through the medium of 6,000 or 7,000 separate institutions. It can only be done by one central institution, and that may be either a central bank or the National Treasury. And as I recognize, along with other currency doctors, that the central bank, for political reasons, is not practical now, I advocate accomplishing the same result under slightly different auspices. Other currency doctors turn from the central bank to something radically different. They turn to the very system which they denounce as unsound, ill advised and a political expedient, and in the same breath tell us that with a slight change it will produce results directly opposite to those it has produced in the past. I turn to our National Treasury as a substitute for the central bank, and by a slight change in the present issues we can have a currency based upon gold slightly elastic or more so if desired, sound and stable, because guaranteed and regulated by our Government and a central authority.

I would take our total issue of gold certificates, of which there are approximately $800,000,000,[1] the issue of legal tender, of which there are approximately $350,000,000, and make them one issue, of which there would be $1,150,000,000. Against these I would hold the $800,000,000 of gold coin represented by the gold certificates or yellow backs and the $150,000,000 now held as reserve for the legal tender or greenbacks, giving $950,000,000 of actual gold reserve against $1,150,000,000 of notes issued, or a reserve of 0.826 per cent. We would here have a note issue based directly upon the

[1] In 1908. Gold certificates are now over $1,800,000,000.

gold reserve redeemable only in gold, with a very slight margin of difference between the actual coin held and the issue outstanding. Suppose more money is needed in the country, we have but to increase the volume of notes $100,000,000, always under the proper restrictions, of course, and there you are. No noise, no red fire, no emergency issue to frighten the timid, to sound the warning that our finances are rotten, no newspaper scare headlines. And that is a great argument against all proposed emergency issues, aside from their very bad economical features.

This issue which I propose would all be uniform, both in its engraving and its life and its retirement. The first $100 bill would be the same as the last. They would all be Treasury notes, legal tender, available for bank reserve, which is the real thing needed, with no complications about their legal status, as such. Suppose this extra $100,000,000 is issued as previously suggested, and we still have 76 per cent reserve, another $100,000,000 and we have 70 per cent, and so on, though I should never be in favor of going much below the last figure. But if we did, owing to some extraordinary emergency, like last October, we could soon recoup by importations of gold or an early reduction of the issue. As to its practical operation: First, let a separate issue department be established in the Treasury as in the Bank of England. Let it be distinctly understood that this issuing of notes is never to be confused or entangled with the regular receipts and expenditures of the Government. Not a dollar of this issue is to go out of the issue department except for gold, deposited or under such circumstances as I shall describe later. And let me say here that those notes are to be acceptable for all taxes, duties, and customs, and thus do away with that anomaly of a government refusing to accept its own promises for taxes or any other debt.

In order to get the increase issues, when needed, into circulation, some scheme must be devised, such as loaning it to banks upon the deposit of approved collateral and charging not less than 5 per cent, or loaning to the banks without collateral and with the same charges and making the loan a prior lien upon the bank's assets. Personally, I am in favor of the latter scheme. That is, taking no collateral and making it a first lien. That gives the bank a freer hand to use the funds for the benefit of its depositors, and those funds will go to the merchant and business man instead of into the security market as in the case of a bond deposit being required.

Moreover, the great danger of a favored security list and the wirepulling to get securities upon that list will be obviated. Many will make the point that it will not be fair to the depositors in the banks to make the Government a prior creditor, but I fail to see it. The Government only comes to the aid of the banks for the benefit of the depositors; why should it not be guaranteed against loss? As against a bond deposit a prior lien is no different. One is the same as the other, so far as the depositor is concerned. The examination of the banks could always be made with a view to their being possible borrowers, and it seems to me should eliminate any possibility of loss if properly conducted. What banker would not be relieved if his loans were all made to houses of which he or a deputy had made a personal examination?

Another method which might be developed for putting the extra issue into circulation when needed would be along the lines of James G. Cannon's suggestion of loaning them to clearing houses where commercial paper would be used as the basis of the security, or a discount committee could be organized in various subtreasury cities which could buy commercial paper. Whatever method was used for accommodating the banking community in time of need if practicable would do. The essential thing, which is usually overlooked, is that the currency in the first instance should be based on a sound economic foundation.

I said that I would make the interest charge to the banks for this extra accommodation 5 per cent, and in the discretion of the Secretary of the Treasury it should be gradually raised to 7 per cent, 8 per cent, 9 per cent, and more if necessary, as the percentage of gold reserve was lowered, thus forcing either a reduction of the issue or an importation of gold. There might be a commission authorized, composed of one member named by the clearing house in each city of 1,000,000 inhabitants and two by the President, making a board of five, who could have the power to check if necessary, but not to destroy the initiative of the Secretary.

The Treasury notes thus issued should not be of a smaller denomination than $20, thus insuring their principal use as bank reserves. Further, the silver issues now constituting the ones, twos, and fives should all gradually be made into tens. The bank circulation should be reversed; instead of being composed of denominations of $5 and over, should be converted into denominations of $5 and under—that is, ones, twos, and fives. Thus we would have a currency harmonious and well balanced, with the Treasury notes making the larger denominations, and the silver certificates, which would be tens, available as bank reserve; the national bank circulation limited to fives, twos, and ones not available as reserve for national banks at least, and to be used as hand to hand money. Thus, naturally, in the regular day's work would the reserve

money be separated from the nonreserve money, and the banks would not have to face every Friday and Saturday morning a heavy drain upon their reserve money, as they do now. And again, the recurrent shortage and plethora of small bills with which we are all familiar could be alternately supplied and corrected by the banks themselves as they saw fit, instead of waiting for the tardy action of the Treasury Department. In fact, the Government will soon have to resort to silver purchases in order to supply the demand for ones and twos unless something like this is done. Thus could the national bank circulation be made useful and still stay within its legal limitations. We know that to-day it is not used for local accommodation, as the theorists presume, but a country bank orders its new issue shipped to its New York correspondent, who has the officers' names lithographed upon it, and then credits the country bank's account. This is the usual procedure, though there are exceptions.

Other than I have suggested, I would not be in favor of disturbing the present national bank circulation except that the rule should be more strictly enforced that it should not be carried as a reserve. As to the privilege of the national banks carrying so large a percentage of their reserve in other banks, as I said previously in this paper, if not entirely eliminated it should be decidedly reduced. I believe there lies the cause of our recurrent money stringency and money plenty in so aggravated a form, and I do not believe that any currency system can be devised which will correct it. A too easily expanded currency will only humor it until it goes beyond bounds and leads to fearful disaster. According to my theory, a legal reserve should be all cash, although the percentage of the total reserve be reduced. For instance, say 25 per cent in cities of 1,000,000 inhabitants, 20 per cent in cities of between 100,000 and 1,000,000, 15 per cent in all cities of between 30,000 and 100,000, and 10 per cent in all other sections, all to be held in legal reserve money in the bank's own vaults.

The natural tendency of funds to collect in money centers is inevitable. Why add to this a harsh law which aggravates the trouble manyfold? If actual elimination of the credit reserve is not possible, then the percentage which is carried in other banks should be reduced. At present a nonreserve bank may carry 60 per cent of its reserve in a reserve city, and that bank may carry 50 per cent of its reserve in a central reserve city.

It seems needless to say more on this subject. A little reflection makes the whole trouble so self-evident. Carrying this principle a little further, no two banking institutions in the same city should be allowed to carry each other's reserve, whether they are national or State banks or trust companies. That situation has obtained and still does in this city. Under what principle of finance such a situation is tolerated I am at a loss to understand. I am aware that in making some of these points I am going to be opposed by many who prefer the present situation to losing deposits. But I think it will be found that such a system can not go on forever. Indeed, I believe that if a central bank is instituted with the purpose of fostering this system of banks in three cities, attempting to carry the reserve for the whole country, it will soon find its power to lend credit exhausted.

The present is the very time to make such a change in the reserve system as I have suggested, as after the panic of last autumn and the natural retrenchment which is bound to follow the whole banking system will have an abundance of reserve money, and the change may be made without hardship, and, moreover, that change should be made before heavy gold shipments begin. It is, of course, understood that my plan for remodeling the currency is only given here in a rough sketch. I have used as few figures as possible, and those are only approximated and in round numbers, in order to avert confusion. But I believe that in this manner only can we secure a currency with some elasticity to it sufficient to allow for the enlargement and contraction of business activity at different seasons of the year. But I believe that no form of credit currency can be devised or should be attempted calculated to take the place of actual coin reserve during a long period of growth. And, moreover, this increased issue of Treasury notes when necessary would, under certain departmental rules, be available for use by any national bank at least that complied with those rules on an equal footing and thus eliminate the possibility of our Treasury funds in time of stress being put in control of a small coterie of men, be they ever so high-minded, as we have recently witnessed.

NOTE.—In this connection a recent statement of Lord Averbury regarding gold reserves in England is interesting. He said that the subject resolved itself under two heads—gold reserves as against bank notes and gold reserves as against liabilities. So far as bank notes were concerned, he thought that his hearers would probably agree that the reserve of gold was ample. There was not a shadow of doubt as to the convertibility of the bank note. The deputy controller of the mint had given an estimate of the amount of gold coin in circulation, including that held by banks. His estimate,

in round figures £116,000,000, was exclusive of bullion. He had no very trustworthy figures as to the amount of gold or silver bullion, but it could hardly, with the gold coin, be less than £150,000,000. The question of gold reserves of banks was, no doubt, a more difficult one. If there were to be any legislation, savings banks must be included. He was surprised that there should be any question on that subject. Yet the chancellor of the exchequer asserted that savings banks were on a different footing. Their deposits, in round figures, were £200,000,000, and against this enormous sum, at the present moment, no reserve gold whatever was held. Yet surely reserve gold was more important for savings banks than for other banks.

Table illustrating how the proposed issue would have been effected in January, 1908:

	Amount.	Gold reserve.	Percentage.
Legal tender	$346,000,000	$150,000,000	
Gold certificates	800,000,000	800,000,000	
Treasury notes	1,146,000,000	950,000,000	82
Emergency increase	1,246,000,000	950,000,000	76

Comparison should be made with the table on page 45, where the reports of January, 1913, are used, and notice how deposits of gold would have increased the issue of Treasury notes and strengthened the reserve.

TREASURY ISSUE v. BANK ISSUE: LET THE BEST CURRENCY IN THE WORLD BE IMPROVED, NOT EMASCULATED.

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The first thought, it seems to me, which naturally arises in carefully analyzing the emergency currency bill recently enacted by Congress [1] is, Why should the currency be in the form of bank notes instead of the Government's own direct obligations? It is to be redeemed by the Government at its own expense, and it is practically loaned by the Government to the various banking associations at a very fair rate of interest upon deposit of approved collateral. In fact, the rate charged for this emergency relief circulation is double that charged for the Government's own funds when placed with depositories. And yet the one is useless as reserve and the other is immediately available as such and for building up or supporting three or four times its volume in credits. The final outcome of all the money and currency agitation which we have experienced for the past few years is a very good example of the manner in which public questions will develop along certain arbitrary lines. When the question first arose a few eminent parties versed in the theory of banking and credit pointed the way of relief in the direction of bank issues, and along those lines only the discussion has continued, oblivious of the fact that there might be relief in a different direction. At last a bill has been passed which brings little if any of the benefits which the originators of the argument intended should be accomplished, and which in principle is faulty, to say the least.

I am in favor of the Government issuing and guaranteeing its own currency. If it chooses to loan the currency to banks under certain approved and fixed conditions in order to relieve severe monetary difficulties, well and good, but what argument can be advanced in favor of the Government issuing currency with the names of various banks printed on it, but which the Government not only guarantees and redeems, but charges a good round interest for? With our present bank circulation I have no quarrel. We all know the conditions which gave it birth; and so long as it is kept down to a reasonable amount it is not particularly dangerous. Its best quality is the fact that it is rather unprofitable to issue.

This currency which I am in favor of should not be an emergency currency, but should as soon as possible be made to absorb all of our present outstanding gold-redeemed currency, including both the legal tender and gold certificates, the gold which they represent being held as a reserve by the Treasury. There would be, according to present conditions, under such a rearrangement, a specie reserve of about 86 per cent, arrived at as follows: Gold in the Treasury held as reserve for the legal tenders, $150,000,000; gold held in trust against gold certificates, $1,086,000,000; total, $1,236,000,000. Legal tender outstanding, $346,000,000; gold certificates outstanding,

[1] Refers to Vreeland amendment to the national bank act providing for emergency currency.

$1,086,000,000; total, $1,432,000,000; $1,236,000,000 specie reserve against $1,432,000,000 currency outstanding, percentage, 86 per cent.

I recognize that the gold certificates represent a trust fund and that it would be impossible to disturb those outstanding by throwing them arbitrarily into such an issue, but if there were issued a Treasury gold note redeemable in gold on demand, and as the gold certificates and old legal tenders came into the Treasury if they were retired and these Treasury gold notes issued in their place the desired result would soon be reached. The percentage of specie reserve to issue outstanding should be fixed, say, 86 per cent, as it is under present conditions, and that percentage never reduced except under such conditions as we experienced in 1907, when an additional 100 or 200 millions of Treasury notes could be issued and loaned to the banks, interest to be charged at not less than 5 or 6 per cent and raised or lowered according to conditions prevailing. When any bank has regained its normal condition it would simply pay off its loan with Treasury notes and the issue thus be reduced, or it could deposit gold to cover the notes loaned to it, and the deficiency in the reserve would thus be wiped out; or the Secretary of the Treasury could buy United States bonds during a financial stringency and sell them when money was abundant, just as the Bank of England buys for cash and sells for the account, and the reverse at different periods.

But that is beyond the scope of this paper. Sufficient it is to say that any plan whereby all banks were treated alike if they conformed to the conditions would do. Under the Vreeland measure any bank wishing to pay off the Government loan may do so by depositing with the Treasury "lawful money," which may be an entirely different form of currency from that which it borrowed, and the currency which it is supposed to retire may remain in circulation for years after. To be sure, the Government stands ready to redeem it at any time, but why not make it originally a Government issue and save this complication? The issue under the Vreeland bill is not reserve money, still it is to be an emergency currency, loaned to the banks at the very time when they are short of reserve and all are endeavoring to regain their legal position at once. I know the argument of those in favor of this form of currency that it is to be paid out by banks to their depositors and legal money held in the vault. Let us presume that this is done. That practically all of the reserve money is in the vaults of the banks of the country, and the depositors, the people, hold nothing but bank notes. Then they will deposit nothing but bank notes in the form of money. The deposits may increase, but the reserves of the banks can't increase, for they hold all of the reserve already. Bank notes should never be counted as reserve money even though they are guaranteed by the Government, for the principle is wrong. But if the emergency issue under the Vreeland act is to be of any service at all, bank notes will be counted in the reserves of banks. Bank notes are now counted in the reserves of most of our State institutions and of many national banks, owing to the impossibility of banks without regularly organized bill departments doing otherwise. And what is the result?

They are releasing just so much gold from the country's reserve to be exported. It is a fact now universally recognized by students of currency and money conditions that any issue which is given power to do what gold can do does not increase the country's money supply, but simply frees gold to leave the country, or relieves the necessity of gold being imported when it otherwise would be. Therefore, let us lay down the general rule that a sound currency is one which represents gold and not one which takes the place of gold.

A currency which represents gold will necessitate the importation of gold if its issue is increased, for presumably the increase will only be made under pressure of a high interest rate and an increased issue necessitates an increased reserve. Whereas, a currency which takes the place of gold, when increased, simply relieves the necessity for more gold or allows some gold already in hand to go. This has been illustrated strongly several times in this country since 1860. The issue of greenbacks in the sixties caused the exportation of gold which they displaced, but they were shorn of a great deal of their power to do so by the fact that they went to a decided discount in gold. And let me call your attention to the fact that a money which passes freely with gold at par is far more dangerous in this regard than one which is at a discount, for the very fact that a money is at a discount is proof that it is not taking the place of gold entirely. But it is universally conceded that the greenback did displace a great deal of gold in our currency and was a standing menace until the resumption of specie payments, when it ceased to be fiat money and became virtually a Treasury note.

And that is what this new issue should be; a gold note based upon a certain specie reserve which should be a percentage rather than a fixed amount. To many such an issue appears as fiat money and they at once throw up their hands and refuse to consider it. But it is not fiat money any more than gold is as long as it is always redeem-

able in gold. To be sure it should be given the legal-tender quality in order to give it an equal power with gold and in order to make it a better representative of the gold for which it stands.

Another period in our financial history when a money issue which took the place of gold instead of representing gold drove a great deal of that metal out of circulation—or, rather, released it and allowed it to go, for gold does not have to be driven away—was during the operation of the Sherman Act of July 14, 1890. That act provided for the monthly purchase of 4,500,000 ounces of silver and the payment therefor with Treasury notes which were redeemable in coin. The bill remained in force three years, during which time $156,000,000 worth of silver was purchased and as much new money put into circulation regardless of the need for it and with no reference to any gold reserve, although it was redeemable in that metal at the option of the holder. During the three years' operation of the bill we exported $160,000,000 worth of gold. We exported almost the exact amount of gold, because the new issue simply took its place and released it and very nearly bankrupted the Treasury through the operation, because the notes were issued for one metal and redeemed in another.

Other instances of issues which took the place of gold instead of representing it were the forced mintage of the Bland silver dollar, whereby about $370,000,000 of that coin were put into circulation between 1878 and 1890. Although they may not have caused the exportation of large amounts of gold, they relieved the necessity for its importation, which would have naturally followed our country's phenomenal growth during that period and the consequent increased demand for currency.

Another instance is the national-bank note, which has none of the qualities that a credit issue by banks is supposed to have, especially the quick redemption; it is not elastic; it is not issued in relation to any gold reserve, and although it is not legal tender or available as reserve for national banks, still it is for State banks and, as I said before is reported as reserve to a certain extent by national banks and to that extent displaces gold.

With these various issues which we have, displacing gold instead of drawing it to us, our country would soon be depleted of its reserve if it were not for its phenomenal growth, its tremendous and steadily increasing export trade, and the production of its mines. Yet this should not be so. Our currency should be built on such lines that though our exports were diminishing and our business drying up, the last dollar of public credit outstanding would be provided for. This can be accomplished by means of a currency with a fixed percentage of gold reserve back of it. Then if the volume of the currency is increased, the volume of its specie reserve must also increase proportionately. If there were heavy gold shipments, the specie would be obtained from the gold reserve by presenting the Treasury notes. The Treasury notes would not be reissued except on deposit of a like amount of gold. Thus the withdrawal of gold would at once reduce our circulation and, through the effect upon the interest rate, make further shipments unprofitable, thus automatically protecting the reserve.

By a currency founded on these lines we could make a fuller and much more beneficial use of our stock of gold than we do at present. By clinging to the gold certificate as at present issued we are limiting the development of our credit and of our national resources to the stock of gold in hand, whereas there is no reason why there should be any such arbitrary limit set upon them. Does anyone believe that the deposits of gold under the earth's surface were originally measured by the need for that metal in carrying on the banking and financial operations of the world? If they were, then let us stick to the use of gold coin and gold certificates. If not, let us devise some means by which we can use a currency based upon gold, representing gold, redeemable in gold, but which, if necessary, may almost double the usefulness of the stock of gold which we find it convenient and necessary to carry. Such a currency would be to the people and the banks exactly the same as a gold certificate, for it would be redeemable in gold on demand and it would be issuable on deposit of gold.

A default in their redemption would be impossible, for long before the reserve was half used for redemption the volume of our currency would be so reduced that no more could or would be presented. In the famous bullion report of 1810, I think, it was first recognized that a country will absorb a certain amount of money and that if the circulation is increased beyond that amount it is corrected through the exchanges or the currency decreases in value. Acting upon this, we may take it that our country will always have use for the volume of currency outstanding to-day and probably more as it grows.

Therefore we are acting with perfect safety if we take the stock of gold now in the Treasury as a reserve and issue the Treasury notes against it, as I have suggested. In a total issue of over 1,400 million there would be less than 200 million of notes not actually covered by coin. If an occasion arises when additional circulation is needed

temporarily, this 200 million of uncovered notes could be increased to 300 or 400 million with perfect safety, for at such a time more money is needed.

If the demand for money is permanent, gold would be imported eventually and deposited with the Treasury, thus bringing the uncovered notes down again to 200 million, but allowing the volume of notes outstanding to remain at the higher figure. This process could continue as our country grew and would operate the same with two billion notes outstanding as it would with one billion.

Thus we should have an elastic legal-tender currency redeemable in gold and available as bank reserve. And it is as bank reserve that an emergency currency is needed. The use of clearing-house certificates proves that conclusively. The emergency issue of these Treasury notes would remove the necessity for clearing-house certificates and the consequent interruption to our domestic exchange.

How much more scientific and useful would such a currency be than that authorised by the Vreeland measure. The one would relieve instantly, going direct to the work for which it was intended, whereas the other has first to be issued by the banks and find its way into the hands of the people, where it is to take the place of reserve money which is to be returned by the people to the banks before there can be any relief. Or, the banks will put the Vreeland currency directly into their reserve contrary to the letter and spirit of the law, and I am inclined to think that it will be the latter.

A comparison of this proposed Treasury note with the issues of the banks of England and Germany will show that it is not very different from them in principle though it would be a direct obligation of the Government, whereas they are the indirect obligation through the Government bank. The Bank of England was authorized by the act of 1844 to issue 14,000,000 sterling in notes, against Government securities anything above that amount to be covered by gold, so that the amount invested is fixed and the specie reserve fluctuates with the excess of the issue over that amount.

By the same act the privilege of note issue on the part of other banks in the Kingdom was limited to the amount in existence at that time, April, 1844, with the proviso that upon the privilege of issue of any of those banks expiring from disuse or failure it should revert to the central bank which could thereupon increase its uncovered notes by two-thirds of the amount. Through the operation of this clause the bank may now issue in the neighborhood of £18,000,000 of uncovered notes. We note here the gradual extinction of other banks of issue and concentration of note issue in the one central bank which is opposed to our present policy of having 8,000 banks of issue and increasing their privileges. We note also the amount of uncovered notes £18,000,000 or $90,000,000, which compares with the $200,000,000 of uncovered Treasury notes under the proposed issue. The Bank of England note is also a legal tender, therefore, available as reserve for other banks, through, of course, there is no legal requirement.

It is interesting to note also that the only time when the circulation of the Bank of England has been found inadequate or its weak points brought out were in 1847, 1857, and 1866. At these times it was necessary to suspend the act or allow the bank to increase its uncovered notes, which amounts to the same thing as our proposition to increase the uncovered Treasury notes during times of financial stress. Let us also note that the weakness lay not in the bank note issue, but that the bank acted as reserve agent for all of the banking institutions of the Kingdom, and that the trouble was caused by their drawing their balances to replenish the cash in their own vaults. The gold was drawn not by the bank note, but by check. We therefore come to the strong conclusion that to completely divorce the monetary issue of a country from the banking business is the only safe and sound plan.

The note circulation of the Imperial Bank of Germany is based largely on the English banking act of 1844. There is a fixed limit of authorized circulation against which specie must be held in the proportion of one-third and issues beyond this amount must be covered in specie for the full amount; except that the bank may exceed this limit without metallic reserve upon the payment of a 5 per cent tax to the Government. Here also the banks of issue are limited to those in existence at the time the act was passed (1875) with reversion of the privilege to the central bank upon the suspension of other banks and the proportionate increase of uncovered notes to be issued by the central bank.

The authorized circulation as originally adopted was 250,000,000 marks, one-third of which (83,000,000 marks) had to be covered in specie; two-thirds (167,000,000 marks) to be invested. You will note that the amount uncovered, 167,000,000 marks, is fixed, whereas the amount uninvested or represented by coin and metal is not; for the issue may exceed 250,000,000 marks by any amount so long as the excess is covered by coin. But if this increase is not all covered by coin and the two-thirds, or 167,000,000 marks, allowed for investment is exceeded, then the 5 per cent tax becomes operative until the note issue is decreased or the metallic reserve increased.

The circulation is something over a billion marks, so the amount to be invested is practically fixed, although the above-given figures have been considerably increased by the imperial bank having taken over the circulation of other banks. Again, we see the similarity to the proposed Treasury notes, with the added feature of the 5 per cent tax which corresponds to the interest to be charged by the Treasury for accommodation. We hear a great deal about the Government going out of the banking business, but I do not believe that in so far as the currency needs of our country are concerned it is possible or feasible for it to do so. M. Noel, in speaking of the Imperial Bank of Germany, says: "The establishment is closely bound to the State and is only able to move, think, or act when the State manifests in some manner its presence and affirms its control." What is that but the Government going into the banking business? If we establish a central bank here we must do one of two things: We must hand the whole of our financial business over to private parties or the Government must take full control. I do not believe 1 in 1,000 of our citizens would consent to the first, and if the latter then it seems to me that the Government would be deeper in the banking business than before.

Therefore, why not utilize and extend the good points of our Treasury system, seizing upon the good points of the currency systems of the world, adapting them to ours and proceed on our prosperous way with the firm conviction that Uncle Sam when he once sees the way clear will do a thing a little better than anyone else could do it.

The following table shows how present Treasury issues would be thrown into proposed new issue and how easily an emergency issue could be effected, which would obviate the necessity of using clearing-house certificates.

[Gold certificates are taken as o. Jan. 31, 1913.]

	Present issue.	Gold reserve.
Legal tender	$346,000,000	$150,000,000
Gold certificates	1,086,000,000	1,086,000,000
Total present issue	1,432,000,000	1,236,000,000

	Interest rate.	Treasury notes.	Gold reserve.	Percentage.
	Per ct.			
Proposed issue	4	$1,432,000,000	$1,236,000,000	86
Emergency increase	5	1,532,000,000	1,236,000,000	80
Additional increase	6	1,632,000,000	1,236,000,000	75
Exceptional increase	7	1,732,000,000	1,236 000 000	70

Those who are familiar with this subject know how delicate an operation it is to tamper with the currency of a highly developed commercial nation such as the United States. The prudence and caution demanded may be compared to that of a surgeon when he wields the knife near the vitals of a human being. Here is a change which may be effected with no more attention attracted than is occasioned by the changing of the engraving on one of the bills of our existing issues, and yet it would go to the very root of our disorder. Experts claim that $150,000,000 increase would be ample to satisfy the reserve shortages of our worst periods. A separate "issue department" should be created in the Treasury and all currency issues controlled from there and not reported and confused with the fiscal department. A surplus or deficiency in the income of the Government should have no effect on or relation to the issue department. The emergency issue could be put into circulation by loaning direct to banks in proportion to capital and surplus, or to deposits, and be made a first lien against the assets, or through discount committees at the clearing houses, or at the subtreasuries. Any one of these three methods would serve; the main thing is to create a sound currency issue first, and, secondly, to keep it in the control of the people's Government and its operations within the bounds of absolute necessity.

FINALE.

If through the perusal of the three foregoing papers the reader has been induced to think a little for himself along the general lines of the greatest good for the greatest number; if he has been brought to realize that a plan or proposal which has all of the advantages urged in its favor may have certain disadvantages which are extraneous

or outside the direct argument, but still have great weight; if he has begun to see as in a picture this vast structure of credit which contains and supports our whole business, social, and commercial life, and then to see it crumbling and fading away over night, leaving in its relentless wake the helpless and unfortunate victims of its enticing and tempting possibilities, then they shall not have been published in vain. The average person one meets in the street has so vague and pitiful a view of general financial movements and of the effect of credit growth or paralysis, that a little study will seem like a revelation to him. The fact that the laws of credit and finance as applied to the individual or the community are so divergent accounts for this in a great degree. How many men who have not made a study of finance realize that an increase in loans results in an increase in deposits? And yet it is axiomatic to a banker. How many earnest men are there who do not rail at the law which prevents national banks from loaning on real estate? Yet it has been demonstrated time and again, during and after crises, that banks have been crippled by it. How many depositors who do not think that their offerings of notes should be taken indefinitely as long as those notes are unquestionably good? They do not realize the peril of too much credit. How many are there who do not think that an A1 check on Chicago is just as good as gold in New York? That a certified check is identical with money? How many bankers are there who do not think that reserve carried in another bank as long as the law allows it is not just as good as though in their own vaults? How many who wonder why the law does not allow a national bank to carry bank notes as reserve? How many who do not want to carry bonds as reserve? How many who do not fret at having to carry so much useless cash as reserve when it might be earning interest? And what is it which suddenly changes the mental attitude of all of them? It is the panic. Then the merchant does not want notes, the Chicago check does not appeal to him, the banker forgets the coveted interest on his reserve. The panic is at once the scourge and the purger of commercial life. It is the firebrand which sears, but maybe it cleanses.

Senator REED. You think that it is entirely practical for us to require in this bill, if it should be passed, that the reserves of the banks should be put in in gold. Do you think we can get the gold accessible to the banks?

Mr. ALLING. I do not know why not. Every bank carries a certain amount of gold certificates. In fact, you will notice the term "specie" in the statement of the comptroller's report. That is not all gold. Various banks are careless about making this amount up. Specie includes gold certificates, silver certificates, and any coin they may have. There was $713,000,000 on September 4, 1913, and on June 12, 1913, there was $724,000,000.

That is the amount of specie, and most of that is gold certificates. So you see they have an ample amount of about $400,000,000 or $500,000,000, provided they get these other notes back in exchange so they can go on and do business. I have a statement here which shows—I am not familiar with these figures—the total is apparently $420,000,000 in gold—coin and certificates. There certainly is $1,000,000,000 in Treasury certificates outstanding.

Senator REED. If we put gold certificates in we would not actually increase the gold supply, because the gold we have already got locked up. The thought I had in my mind was whether by a provision such as you suggest in this bill we could actually largely increase the amount of gold in the Treasury or in the banks and the Treasury together.

Mr. ALLING. You mean the actual metal.

Senator REED. I mean the actual metal.

Mr. ALLING. No; you can not increase that by legislation.

Senator REED. I mean increase the gathering of it. I do not mean to increase the actual gold. I am not a fiat money man—at least I do not think you can create gold by a fiat. What I mean is this: Could we actually gather $550,000,000 more of actual gold coin? Do you think it is in the country and that the banks could get it?

Mr. ALLING. You mean coin that is in the country?

Senator REED. Yes; so that the banks could gather it up.

Mr. ALLING. I think that could be done—not all of it, but a large portion of it.

Senator REED. Do you think that a large portion of it could be accumulated substantially at once—immediately I mean—and the balance of it gathered in gradually out of the circulation?

Mr. ALLING. I should think if all of the national banks came into this system that in the neighborhood of $400,000,000 or $500,000,000 in gold could be accumulated.

Senator REED. If we got that much in addition to the $1,100,000,000 that we have back of our gold certificates, and in addition, I think it is, to the $150,000,000 that we have back of our legal tender, we would then have in this country the largest gold reserve of any country in the world.

Mr. ALLING. I think we would. I am not familiar enough with the figures, however, to state just now. They could use either gold certificates or gold coin if required in the bill.

Senator REED. What I am asking and what I am dealing with, Prof. Sprague, is the actual accumulation of money. I understand that a bank could take a gold certificate and use it in lieu of the gold. In that event our gold in this country in the banks and Government vaults would not be decreased a dollar. I am inquiring as to the feasibility and practicability of actually getting more gold coin.

Prof. SPRAGUE. There is a lot of gold coin, of course, in circulation, and by a process of substituting some other kind of money for it, you might gradually attract that gold coin into the banks. I do not believe there is very much away from the Pacific coast in circulation—that is, outside of the banks—to be gathered in. It would have to be imported from abroad, and they could not secure any great amount of gold other than the gold certificates.

Senator REED. What do you think about that, Mr. Alling? Do you not find a good deal of gold going through your bank right along?

Mr. ALLING. Oh, the bulk of the money above $20 bills seems to be gold—gold certificates.

Prof. SPRAGUE. Those are included in the Senator's supposition.

Senator REED. I am talking about the gold; yellow, shiny, gold coin.

Mr. ALLING. I could not say how much there would be. What does the statement say?

Senator REED. I am dealing with the proposition with the idea in mind of seeing how much we can actually increase the gold which will be in the Treasury of the United States or in the vaults of these regional banks or any other system of banks we establish and which will constitute a gold reserve on which notes might be issued.

Prof. SPRAGUE. There were $143,000,000 of gold coin, as distinguished from gold certificates, in the national banks. That might go into these Federal reserve banks. Then, there is probably some gold coin out in circulation.

Senator REED. That gold is held now back of our Federal currency.

Prof. SPRAGUE. That, as I understand you, is to include the gold coin in the banks.

Senator REED. That is not what I am trying to get from Mr. Alling. What we have already is locked up and is safe.

Prof. SPRAGUE. I do not think there is much gold outside of the banks at the present time away from the mountain and Pacific Coast States. What there is could only be gathered up very slowly by a process of the banks carefully keeping any gold that came in over the counter and insisting that their depositors when they paid checks should take currency rather than gold. I do not believe it would be possible to get by that means $100,000,000.

Senator REED. What do you think about that, Mr. Alling?

Mr. ALLING. I can not make any statement in connection with that. I have not made a study of how much actual coin there is in circulation. What were the figures, the limit that the professor gave?

Senator REED. $100,000,000.

Mr. ALLING. He stated that you could not get $100,000,000 outside of the gold certificates.

Prof. SPRAGUE. And the gold coin in the banks.

Senator REED. I do not care what gold the bank has in it—whether it is in the bank or whether it is in an old woman's stocking. I would rather it would be in a bank because the money could then be used. I am talking about whether there is gold in existence in the United States of America outside of the vaults of the Federal Treasury sufficient to make up $500,000,000 of gold which could be taken now, gathered together and locked up just as we have locked up the $1,100,000,000 of gold back of the gold certificates.

Mr. ALLING. I do not see why not. The report of the Secretary of the Treasury shows that there is over $1,000,000,000 of gold certificates outstanding. And there certainly has not been $500,000,000 destroyed by fire and loss.

Senator SHAFROTH. The Senator says "besides that." He eliminates that.

Mr. ALLING. I thought you meant the $500,000,000.

Senator REED. Oh, no.

Mr. ALLING Well, I will have to consider that before I come back from Richmond.

Senator REED. Then you will probably stop on your way back. However, I am going to ask you just one more question. You are in the banking business in New York City?

Mr. ALLING. Yes.

Senator REED. What is the capital of your bank?

Mr. ALLING. $1,000,000.

Senator REED. What are your deposits?

Mr. ALLING. About $14,000,000—a little over that—gross deposits. Net deposits under $12,000,000.

Senator REED. How long have you been in the banking business

Mr. ALLING. Twenty-six years.

Senator REED. Have you been in New York most of the time?

Mr. ALLING. Yes, sir; I have been in New York all of the time.

Senator REED. So that you have had an extensive experience in banking in New York City, I take it. How long have you been with this bank?

Mr. ALLING. I have been with the bank for 26 years.

Senator REED. Have you been president all that time?

Mr. ALLING. No, sir. I am now vice president. I started in as a messenger boy, practically.

Senator REED. You have worked right up all the way through. You have been occupying a responsible position with the bank, how long?

Mr. ALLING. About five or six years. My powers of observation, however, were not limited previous to that time.

Senator REED. I understand. I only desired to get your experience into the record.

I wish you might stop over in Washington on your way back from Richmond. In the meantime you might think over the question of how much gold we could gather up in this country.

Mr. ALLING. The committee sits Friday and does not sit Saturday?

The CHAIRMAN. I think the committee will be in session every day.

Senator POMERENE. I would like to ask one question here, if I may. You spoke of an elastic system of currency which ought to expand according to the necessities of financial conditions. Now, believing in that system, as you evidently do, is it your judgment, assuming that this system is adopted, that this reserve board should be named by the Government or by the bankers?

Mr. ALLING. That is a little outside of the scope of my paper.

Senator POMERENE. I know it is; but it is not outside of the scope of our inquiry.

Mr. ALLING. I think the Government should control this, but I still think that no harm could arise from having representation by the banks The banking business is a very peculiar business and there are things that have to be foreseen at times that a man who is not trained in that business does not foresee.

Senator POMORENE. Assuming that this board is to be appointed by the Government, it does not mean for one minute if I properly construe it, that this board should be composed of men who had no experience or were without judgment.

Mr. ALLING. Well, I was speaking of men who had no experience in banking.

Senator POMERENE. It might or might not be a banking experience.

Mr. ALLING. No; I thought that one provision eliminates the rest of them from it. Is not there one provision which said that one shall have had three years' experience at a banker. Naturally that means that the others shall not.

Senator POMERENE. Not necessarily so.

Mr. ALLING. It does not say "at least one"?

Senator REED. Well, that would be the construction.

Senator POMERENE. I am speaking of the reserve board.

Senator REED. That would be the construction, that at least one must be, and the others may be.

Senator POMERENE. I want your judgment as to another proposition.

Do you think that the national banks should have the privilege of going into this business or staying out of it, or should that provision be compulsory?

Mr. ALLING. I think it would be a great deal better if all the banks were in it.

Senator POMERENE. I agree with you; and to that end, do you not think, in view of the fact that we are trying to adopt a national

system here, that it should be compulsory, rather than voluntary—looking at it now from the standpoint of an American citizen?

Mr. ALLING. I really think that I have an open mind on that subject. I am not trying to dodge the question, Senator——

Senator POMERENE. I understand that.

Mr. ALLING (continuing). But, of course, I am here representing—I am a bank officer.

Senator REED. Are your views which you have expressed here—with the exception of this one matter, which you have not answered directly—the result of some conference or talk that you have had with some other bankers?

Mr. ALLING. No, sir. I never had the honor of being invited into a conference.

Senator REED. Do you know anything about any propaganda that has been carried on—not only now, but for some years past—by the banks to bring about a change in the banking and currency laws?

Mr. ALLING. Well; I would not call it a propaganda.

Senator REED. Well, you may call it by whatever term you wish to refer to.

Mr. ALLING. I think that there is a universal feeling among the banks that there should be some change in the currency system, and different men have different methods of attaining it, but I do not think there has been any concealed move.

Senator REED. Do you know anything about a fund for that purpose—for publicity purposes?

Mr. ALLING. I do not.

Senator REED. Do you know anything about letters having been sent out from New York City by certain banks?

Mr. ALLING. I do not.

Senator REED. Through the other banks of the country?

Mr. ALLING. No.

Senator REED. That has not come under your observation?

Mr. ALLING. No.

Senator POMERENE. Among the powers which are given to the Federal reserve board under this bill is the power denominated as—

(b) To permit or require, in time of emergency, Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks. * * *

The American Bankers' Association proposed an amendment which would eliminate the power to require and confine it to the power to permit this rediscounting. What is your judgment as to whether the board should have the power to require it or the power to permit it only?

Mr. ALLING. I do not think that it is anything to be worried about. I mean the fact that the board would have the power.

Senator POMERENE. In other words, you believe that the Government ordinarily would not require a thing to be done unless it in effect should be done?

Mr. ALLING. No.

Senator REED. You do not get his answer into the record as it should be.

Senator POMERENE. And for that reason you are not worrying about it?

Mr. ALLING. I am assuming that this board will be composed of men of such character that anything they will do in that line will be

for the best interests of the whole country. I think that is the idea of the drafters of the bill.

Senator SHAFROTH. Mr. Alling, I want to ask you one or two questions, please.

There is no way under this bill of getting money issued under its provisions except by the member banks depositing commercial paper, is there?

Mr. ALLING. There is no other way for member banks to get money.

Senator SHAFROTH. There is no way for any money to be issued under the provisions of this bill except by member banks presenting paper for discount?

Mr. ALLING. No. There is no other way. I do not know as I understand the full purport of your question, because money is not issued when member banks present paper for discount. It is issued when the——

Senator SHAFROTH. The paper is predicated upon the assets that are in the reserve banks.

Senator REED. You mean the money that is issued?

Senator SHAFROTH. I mean the money that is to be issued upon that. There is nothing else back of it except the commercial paper that is in the hands of the Federal reserve banks, placed there by the member bank.

Now, if that is true, and the circulating medium should include all ultimately of the bank's circulation that now exists and the emergency currency which it is supposed that this bill gives, would it not require the Federal reserve banks to have an enormous banking business in keeping this paper, which is only 90-day paper, in circulation?

Mr. ALLING. I do not know. You say "enormous banking business."

Senator SHAFROTH. Yes. If there is $750,000,000 of national-bank notes now; if that is to be substituted by the currency authorized by this bill, and that currency is predicated solely upon these short-time obligations, it means that for that loan there are to be renewals every 90 days, or even less time than that, for a good deal of the paper is 30-day paper, and would not that require a great banking force?

Mr. ALLING. You can figure out what it would require. It would be simply the total at one time. It would be the total amount of the loans and the total amount of the business of the year. With a 45-day note you divide the 45 days into the year and the number of notes that would have to be discounted during the year, if that is what you mean by "enormous banking business." It does not seem to me that that is a thing to be worried over a great deal. I am not worrying about the paper being 45-day paper. I think these Federal reserve banks are organized for the purpose of aiding the banks in times when they need aid. They are not organized to give the banks permanent capital or permanent cash or to help them to build up their business.

Senator SHAFROTH. But this bill does provide that the currency authorized under its terms shall ultimately take the place of all the bank currency now existing.

Mr. ALLING. Yes; but they would not have to loan that, would they?

Senator SHAFROTH. It would have to be in circulation or it would be a contraction of the currency.

Mr. ALLING. It would not have to be loaned. There is $700,000,000 of national-bank notes outstanding now. If you held $100, we will say——

Senator SHAFROTH. Yes.

Mr. ALLING. The reserve bank issues $100 of reserve notes; they give them to you and take the $100 back. There is no decrease in the circulation.

Senator SHAFROTH. Yes; but the national-bank notes that are now issued have to be retired according to this bill.

Mr. ALLING. That is as I understand it, but the Federal reserve notes are to be issued in exchange for the national-bank notes. Whether that is done through a deposit in the Treasury Building, whether it is done between the Federal reserve bank and the national bank, makes no difference. It is simply an exchange of one note for another.

Senator SHAFROTH. But that bank note in circulation has to be retired by the bank. They present their notes and they are canceled, and they get notes of this reserve bank which are substituted in their place. That circulation then becomes based upon short-time paper instead of, as it is now based, upon bonds. There has to be some basis for money circulation. It is now based upon bonds, is it not?

Mr. ALLING. Yes.

Senator SHAFROTH. You have 2 per cent bonds that are on file with the Treasury Department?

Mr. ALLING. Yes.

Senator SHAFROTH. They are to be canceled. The banks are to get 3 per cent bonds issued to them and wipe that currency out. It will be as though it had never been issued. That currency has to be issued by these reserve banks, and the only way it can be done is by the banks, in substitution for this currency of the country, to deposit their bank notes and then have the Federal reserve banks issue new notes.

Mr. ALLING. How would they have to borrow it? This $700,000,000, as I understand it, could not be loaned. We have to go back to the beginning of that. Let us say the national bank holds a United States bond worth $1,000.

Senator SHAFROTH. Yes.

Mr. ALLING. It wants to retire those bank notes, through the operation of the Treasury Department.

Senator SHAFROTH. Yes.

Mr. ALLING. It sells the bond and somebody has to buy the bond; and he can pay that back for the bond with, we will say, Federal reserve notes.

Senator BRISTOW. Where would he get them?

Senator SHAFROTH. Yes; where does he get them to do that with?

Mr. ALLING. I am not particularly in favor of that, as you will notice in my bill. I have never thought of that feature of it, however, and I will ask to let you give me time to think that over also when I go down to Richmond.

Senator SHAFROTH. I wish you would do so. And now I will not ask you any more questions.

Mr. ALLING. I am now speaking offhand, without figuring it out, and I should say it would not result in a contraction. There must be a displacement there; if I have $100 national-bank notes and they are retired I still have $100.

The CHAIRMAN. What objection, Mr. Alling, would you see to taking the $50,000,000 of actual gold coin now in the Treasury of the United States that happens to be there to-day, all free gold in the current funds they happen to have—what objection would there be to putting that gold in the Redemption Division, the reserve division of the Federal Treasury, and issuing Treasury notes against it, payable in gold—without being a gold certificate but payable in gold—and issuing then a like amount of $50,000,000 of Treasury notes against 3 per cent bonds, and take up these 2 per cent bonds, putting these threes in the Redemption Division, the reserve division of the Treasury Department; so that the result would be to retire $50,000,000of twos and $50,000,000 of national-bank notes, replacing the natonal-bank notes with Treasury notes, but having $100,000,000 of these Treasury notes and $50,000,000 of gold and $50,000,000 of 3 per cent bonds in the Federal Treasury? Would you regard that as a judicious or proper way to take care of these national-bank notes outstanding?

Mr. ALLING. I would not think so at first thought. I would have to think about that, because there are always so many ramifications about a thing like that. A question like that must be thought over very carefully, but it seems to me—your idea is to issue against this $50,000,000 of gold coin just $50,000,000 of United States notes?

The CHAIRMAN. In this transaction I speak of, there would be $50,000,000 of gold and $50,000,000 of 3 per cent bonds, against which $100,000,000 of notes would be issued.

Mr. ALLING. Fifty per cent of reserve against those notes?

The CHAIRMAN. I mean $100,000,000 of notes against $50,000,000 of gold and $50,000,000 of 3 per cent bonds in the Treasury. That would be dollar for dollar of bonds and gold.

Mr. ALLING. These would be 2 per cent bonds, so that it would result in the retirement of that much national-bank notes in circulation. There would be no change in the total volume of our circulation.

The CHAIRMAN. No; there would be no change.

Mr. ALLING. I do not see how it could do any harm, but it looks as though the Government would be tying up the free balance of gold very much. It would not be able to use that any more. That is, the free balance, which the Government has to sustain its credit with.

Senator SHAFROTH. But there would be twice that amount of notes outstanding.

Mr. ALLING. Yes; but they are outstanding. They are not in the Treasury.

Senator REED. I do not believe Mr. Alling got the import of that question.

The CHAIRMAN. The proposition is this: It has been suggested that we retire the national-bank notes by issuing Treasury notes in lieu of them as rapidly as we have available free gold to put also into the reserve division of the Treasury, so that—if we have $500,000,000 of free gold now in the current fund—if we replace those gold dollars,

those actual coined dollars now in the Treasury, with Treasury notes and put that coin into the reserve division of the Treasury——

Senator REED. You would have then 100 per cent of gold reserve.

Mr. ALLING. That is, if you start at that point.

The CHAIRMAN. Yes, you would have 100 per cent of gold reserve, if you start at that point, against these particular notes. But at the same time, coincidental with this, $50,000,000 of 2 per cents will be taken over.

Mr. ALLING. With an additional issue——

The CHAIRMAN (continuing). Retiring the $50,000,000 of national-bank notes issued against those 2 per cent bonds, and issuing in lieu of the national-bank notes Treasury notes and in lieu of the 2 per cents now in the hands of the comptroller belonging to the various national banks which deposited them substitute 3 per cents owned by the United States and kept in the redemption division, which will be an available form of public credit by which gold can be obtained in the markets of the world, if necessary, on 3 per cent current bonds, either by borrowing or by actually selling them, if necessary, but probably by borrowing them through the fiscal agents of the Government, if it should be necessary to add to our store of gold from foreign supplies. It is a somewhat long proposition, but in view of the fact that you are so familiar with the whole subject, I venture to put it before you, because that was along the line of your previous paper.

Mr. ALLING. These suggestions are sound enough, but I do not like the idea of proposing to issue all forms of currency. What we want is to get our currency down to as simple a basis as it is possible, and to have as few different forms of currency as we can have.

The CHAIRMAN. The purpose of that was to retire the 7,000 and odd different bank notes, each of which has from four to five plates and therefore there are 28,000 to 30,000 plates, and instead of that have a Treasury note the only form of paper in this country, but have that note secured by dollar for dollar, either of gold or United States bonds, but in that contingency the bonds will be owned by the United States in its own Treasury, the United States can receive the interest on its own bonds, and put an end to the payment of interest upon bonds owned by the banks.

Mr. ALLING. Another thing that would result would be a replacing of national-bank notes not a reserve for national banks by a note which would be a reserve. That would at once result in $50,000,000 of cash being added to that in the banks.

The CHAIRMAN. At the present time the State banks have the advantage of the national banks in that they can hold these national-bank notes as their reserve while the national banks are denied a like authority. It is an advantage which the State banks have over the national banks.

Mr. ALLING. Possibly, but as our national banks were organized originally, besides having the privilege of issuing currency they are supposed to be the national reserve-carrying banks of the country. That is what I take the concept of the law to mean, that they were to be the reserve-carrying banks of the country. A country which has a central bank relies upon its central bank. We have none, and we rely upon our national banks. They have certain privileges, or

did have in the past, of issuing currency and doing business with each other in different parts of the country in the way of carrying reserves, which were given to them in exchange for carrying the reserves of the country. That is what I should say was the spirit in which the national-bank act was drawn outside the issuing of national-bank notes against bonds.

Senator REED. If I understand Senator Owen's proposition that he put to you, it is this: To retire all of the gold certificates, all the greenbacks, and all the national-bank notes, and to issue Treasury notes and to have the Treasury notes backed by 50 cents on the dollar actual gold, and backed by a Government bond bearing 3 per cent interest, so that the holder of a note would have 100 per cent, one-half of which would be gold and one-half of which would be a bond of the United States.

Mr. ALLING. You have made your statement a little broader than Senator Owen made his. He started with $50,000,000 and increased it to $100,000,000. You have taken in all the gold available.

Senator REED. That is where it would ultimately work out. Would that be a safe currency?

Mr. ALLING. Not if you double it right away by making 50 per cent gold reserve, but if you started off with all the gold in hand and issued United States Treasury notes for the same amount as we have now, and only increased that as circumstances demanded and conditions warranted, then I would call it a good proposition, but I would not call it a good proposition to suddenly double the amount of the gold.

Senator REED. That is a question of inflation.

Mr. ALLING. And another thing that I do not particularly care for is to carry all United States bonds as security for these notes, because they are no more security than the ordinary credit of the Government, and it looks as though we were trying to fool ourselves.

The CHAIRMAN. It is merchantable.

Senator REED. There is this distinction.

Mr. ALLING. You mean that you do not have to have a special act to issue them.

The CHAIRMAN. You can get gold whenever you want to by issuing bonds and selling them.

Senator REED. If you devise a system of currency for the country with 50 per cent reserve of gold, it is generally conceded that that in itself is a pretty healthy reserve, and the faith and credit of the Government in addition. Now, as a bracer to that, if actually every time you issue $1,000,000, you squarely set aside $500,000 of gold over that, and at the same time about $500,000 interest-bearing bonds and hold it, if there ever came a run that depleted that gold to a point of danger the Federal authorities would then be authorized to take these bonds and put them upon the market until they got enough gold to replenish the exchequer—the reserve. That would be, would it not, some element of safety over and above the mere faith of the Government, because the Government says:

We now have issued ready to put on the market, when necessary, gold interest-bearing bonds.

Mr. ALLING. It would give you a means of restoring your gold supply by sacrificing your bonds once in a while.

Senator REED. Do you think that would have to be done? If a note will float with a 50 per cent gold reserve, and the faith of the Government back of it, the bond would never have to be used, would it, unless there came some supreme emergency and crisis sufficient to break down the bond?

Mr. ALLING. The bond might decrease a little.

The CHAIRMAN. In connection with the question asked by Senator Reed, I submit for the record a table showing the percentage of the actual gold reserve against the notes of the different reserve banks of Europe, the actual gold reserve against the notes and deposits, and the actual gold reserve against the deposits only, which only is possible in the case of the Bank of England, because it is the only bank that keeps the accounts in such a form permitting the calculation.

Senator SHAFROTH. That is very valuable; it ought to go in.

The CHAIRMAN. I want it to go in so that it will explain my question.

The meaning of the table is that these percentages show the ratio of reserves in actual gold, or silver, which the Bank of England, the Reichsbank of Germany, the Bank of France, the Bank of Netherlands, and the Bank of Belgium, which are all reserve banks, carry as against their actual note issue; second, against their note issue and deposits combined; and, third, against their deposits only. The Bank of England carries £22,000,000 of notes against the amount of its deposits and has in actual gold reserve against its demand deposits only about 25 per cent of gold.

(The statement submitted by the chairman is as follows:)

Reserve of actual gold versus notes only, versus notes and deposits against deposits only.

	Versus notes only.	Versus both notes and deposits.	Versus deposits only.
	Per cent.	*Per cent.*	*Per cent.*
Bank of England	62.7	38.3	[1] 25
Reichsbank	30.0	37.1	.....
Bank of France	58.0	75.0	.....
Netherlands	58.0	57.0	.....
Belgium	19.0	17.0	.....

[1] Banking department.

See Congressional Record (p. 3466) of Aug. 5, 1913.—R. L. O.

It is now five minutes of 5, and I think we had better give Mr. Marshall an opportunity to be heard.

Senator REED. Will you stop on your way back, Mr. Alling?

Mr. ALLING. Yes; I will have pleasure in stopping here on my way back.

STATEMENT OF MR. F. E. MARSHALL, OF NEW YORK, N. Y.

The CHAIRMAN. Mr. Marshall, I wish you would state for the benefit of the stenographer your full name and address.

Mr. MARSHALL. My name is F. E. Marshall, and my residence is New York.

The CHAIRMAN. With reference to the various positions which Mr. Marshall has occupied as a banker, incidentally, I wish to preface his statement by saying that I expressly requested him to appear before the committee in connection with this bill, because of his long and particularly valuable experience in the banking world, he having started out as a bank examiner, then was vice president of the National Bank of Commerce of Kansas City, afterwards president of the Continental National Bank of St. Louis, vice president of the National Bank of St. Louis, and afterwards president of the Phenix National Bank of New York.

With that explanatory statement, I will allow Mr. Marshall to proceed.

Mr. MARSHALL. Responding to the request of Senator Owen, I will say that I am not here to discuss the bill from a scientific point of view. I have read the bill and have tried to fit it practically to the banking business of the country as I have come in contact with that business in all sections of the United States. I have been a country banker, and then have been in the different cities named by Senator Owen.

Like most people in reading this bill, my apprehension first was about the contraction of credit, whether or not the banks would be called upon and that it would be necessary to contract credit faster than the conditions would justify in order to meet the provisions of the bill; second, my apprehension was as to the issue of currency, whether or not the door was open for an inflated currency. While I am not at this time an active officer of a bank, being out of business actively, yet I consider that I am a banker. I am a stockholder in several banks, and from that standpoint I have studied this bill. Like other bankers, I have realized that we need something, and that is about as far as the bankers themselves have gone. They have never agreed amongst themselves as to what that something was.

I think that really down at the bottom of the bill that probably the experiences that we went through in 1907, which brought us facing the fact that we must do something that would put us on a more stable basis in times of stress and that we can not simply go on in times of stress and shut down and say "No," that that was what 1907 did for us.

When New York gets in trouble, it is big trouble, and there is no place for that city's banks to go for help, and therefore the reserves of the country are locked up and are not available, and I assume that the purpose of this bill is, first, to get the reserves back into the country, where they are needed and belong, and at the same time establish a bank or banks that is a safe depository and a surer source of supply in times of stress. Whether this meets it I can not say any more than you can. Unless the banks come in and work with you, of course, it will not be worth much. It all depends upon the banks coming in.

I have taken the liberty of preparing a few suggestions which I want to make as to a few changes in the bill. I am very much in favor of the bill, but like many bills it probably needs a number of changes here and there in order to make it more workable. My idea was right in the beginning here, on page 3, where it says:

The total number of reserve cities designated by the organization committee shall be not less than 12.

To make it perfectly sure, I will put that:

Not less than 6 nor more than 12.

If enough do not come in to establish 12, I would let it be so you could establish less than that number to start with.

Now, with respect to section 7, which was the next one I took up and referred to. This relates to the division of earnings, and which reads, "Dividend of 5 per cent"—and it is fixed at that—"to the stockholders." My suggestion is that that should be 5 per cent until the surplus fund is built up to the 20 per cent; then the dividends should be increased to 6 per cent, the balance of the earnings to be divided equally between the United States and the stockholders. I would, however, in addition to the surplus funds, create an undivided profit account of, say, 10 per cent, making it that much more safe and as a protection to the surplus fund. My idea there is that that is an inducement. Naturally, bankers are like other people, they are human, and they want to get a return on their money, and the majority of banks are accustomed to making 6 per cent or more. I am speaking from the stockholder's standpoint. When we speak of the "banker," we are liable to misconstrue it as just simply referring to the managers of the bank. It should be remembered that the stockholders of the country banks throughout the United States are country people largely.

I next direct your attention to section 11, relating to the Federal reserve board, about which there has been a great deal of talk. I am just as strong as anybody can be in the belief that the Government should be in control. I believe that the governmental supervision of this bank should be as we are discussing "governmental control." But, I also believe that the stockholders of the different banks should have representation on this board or the Federal reserve board. My suggestion is that that board consist of seven members, composed of the Secretary of the Treasury and four members to be chosen by the President of the United States, at least two of whom are to be experienced bankers and two members to be chosen by the stockholders of the Federal reserve bank, all to be with the advice and consent of the Senate.

Senator REED. You are speaking of the regional bank now?

Mr. MARSHALL. No; I am speaking of the reserve board. It gives the Government absolute control, yet it gives the stockholders of the bank representation. Of course, I would go on as to the politics of each one of them. I think that that should be as it now provides, of different parties.

Senator REED. Do you think that that feature would amount to much?

Mr. MARSHALL. I believe that the people would be better satisfied. There is a great deal of talk to the effect that we are going to have a politically managed bank.

Senator REED. How would you control that, Mr. Marshall? I observe you are speaking from notes.

Mr. MARSHALL. No; I have just a little memorandum here.

Senator REED. I take it that my interruption will not interfere with the trend of your remarks?

Mr. MARSHALL. That is right, it will not.

Senator REED. How would you control that bipartisan feature? My experience and my observation have been that a bipartisan board, selected by a bipartisan, is more thoroughly under the control of the partisan who selected him than a purely partisan board.

Mr. MARSHALL. Purely nonpartisan?

Senator REED. No; than a purely partisan board. In other words, I want to illustrate it and see if you can suggest something: If the Republican Party could pay two Republicans by some means and the Democratic Party could pay two Democrats, the source of the appointment being partisan in each case, you get two partisans to represent each side. But if the Democrat is President and he picks a Republican, how are you going to prevent him picking a couple of "Democratic" Republicans?

Senator SHAFROTH. Who will "out-Herod Herod"?

Senator REED. A couple of Republicans who will be more subservient to him than the Democrats? I have had some experience and have made some observations of those things. I always found out that when I appointed a bipartisan board that my Democrats were rather independent. They felt they had earned the right to some recognition and promotion, and that they had received only that which was coming to them, and that often not as much as they ought to obtain; but when I came to my Republican appointees, they were solely my creatures, and I had appointed them because they were exceedingly friendly to me; and I always found that if I had any trouble with my boards, that my two Republicans were sure to stand with me and my Democrats might be doubtful. I have observed that when Republicans made appointments that it worked out about the same way; and when you come to talk about appointing a bipartisan board of bankers, my observation has been that you would have some difficulty in getting Democratic bankers. [Laughter.]

Mr. MARSHALL. No; I do not agree with you there.

Senator REED. Unless you went out and got some man whose conscience and patriotism outweighed his interest.

Mr. MARSHALL. Senator, I have tried to look at this and have looked at it——

Senator REED. I want to say right now if a man can devise a plan—perhaps you can suggest it—by which the Republicans in Congress, or some other authorized party source, could name the two Republicans, and you had an equal partisan force to name a Democrat, you would have a bipartisan board. In other words, I think it is a farce——

Senator SHAFROTH. The length of service would have a tendency to cure that.

Senator BRISTOW. To my mind, that would make the board continually bipartisan. The Supreme Court is not bipartisan, and that is appointed for a long period of time. When a Republican is appointed under a Republican administration, he is a Republican.

Senator REED. Do you propose to have this board a long-term board?

Senator SHAFROTH. Yes.

Mr. MARSHALL. Three, six—how is this?

Senator SHAFROTH. Eight years.

Mr. MARSHALL. Three, six, and nine years, is it not?

Senator REED. This is not giving the witness an opportunity to make his statement, but I will never consent while I live to creating a system in this Government that the people of the United States can not change at the next election.

Mr. MARSHALL. Well, you would not put a board of directors—that is what it is, the management of a bank—up as an elective office, subject to election of the people?

Senator REED. No, sir; but I would not create a power that controlled the finances, controlled the commerce of a nation, and call it a Government power, as an arm of the Government, that would be independent of the men that the population of the United States sent down here to represent them. I never would consent to that.

Mr. MARSHALL. Senator, I have tried to look at that provision of it, and I have thought of it not as a political matter, but we are trying to get something here to take hold of the conditions which now exist.

Senator REED. It is not political. I am not talking about that.

Mr. MARSHALL. And I, for one, would be willing for this board just simply to be appointed. We hear a great deal of talk about the political complexion, and that we are going to have a politically controlled board of management.

Senator REED. If you are going to have the Government out of it, if you are going to turn this over to the banks and let the banks control it, that is one plan. It might be the right plan, and there are many things that might be said in its favor. But, if you are going to have a Government control, then I am not in favor of fixing that Government control so that the people who elect the Government can not change it whenever they see fit to elect a new set of men to represent them.

Mr. MARSHALL. I suggest that the two members chosen by the President of the United States and the two members chosen by the stockholders shall be with the advice and consent of the Senate.

Senator REED. That, of course, is a different question.

Mr. MARSHALL. As I say, that is simply to answer the question that is abroad in the country as to a political complexion of this board. I believe I have enough confidence in men, and my experience has taught me that the responsibility will be so great on the men who are to sit on this board that they will be equal to the responsibility and never think of their political beliefs, and it will not be run along that line.

Senator REED. I do not think there is, however, so much danger from politics coming in as I do from creating a concern here that is practically permanent and which is, to a large extent, independent of that Government which the people have the power to elect.

Mr. MARSHALL. Well, so far as creating the bank is concerned and the idea that bankers are going to control, that is as far as we got with the Aldrich plan. Two-thirds of the people who read that, whether Congressmen or bankers or others, they got far enough to see that the door was unlocked and that the bank would be in a little while in charge of the bankers of New York, and that was enough to kill it. The people of this country are not going to stand for a central bank or any other one bank controlled by the bankers of this country. What we call our "country bankers" are not going to submit to that.

Senator POMERENE. They had their experience in that regard in 1907.

Mr. MARSHALL. I feel a little closer to the country bankers myself than to the city bankers. I am a country banker. I was president of a bank in New York, however, during the panic of 1907, and I believe that the country bankers of this country are very much in favor of this bill. I have never seen it figured——

Senator BRISTOW. I would like to find one of them out in our country who is. I have not found him yet.

Mr. MARSHALL. I am not saying that from personal observation. I have not been out in the country, but I am speaking of my general knowledge of the country banker. We know that every time that there is the least scare or anything of that kind the country banker commences to fill his vault with money.

Senator REED. He would not do that if he could go and get the money from the reserve bank when he needed it.

Mr. MARSHALL. I think not. In the panic of 1907 customers who were my best friends in Missouri, my home State, and from Kansas, came to me, and I asked them to send me a statement to look at. They were wanting money. They would have 50 or 60 per cent reserve, and then they were crying for more. They wanted it to sleep on. Those are really the facts when you come down to it.

Senator REED. That is because they did not know when a run would be started on them.

Mr. MARSHALL. Certainly.

Senator REED. Why can not a plan be devised whereby that country banker could go to the Government, of his own right, according to the laws that are prescribed, and get the relief which he needs without having to depend upon New York or some other bank, and when the occasion is over let it automatically retire?

Mr. MARSHALL. Well, I think this will take the place of it.

Senator REED. Why should anything take the place of it? Why is not that the best plan?

Mr. MARSHALL. You can go out here, say, to the State of Kansas and Nebraska and Oklahoma, and the men in control of the reserve banks are in a position to know and they do know that country. They know the people that they are dealing with.

Senator REED. Do you mean they know the banks they are dealing with or the customers of the banks?

Mr. MARSHALL. They know both.

Senator REED. There is a domain that is as big as Germany, France, and the island of England put together, and even more.

Mr. MARSHALL. You are going to have men on that board from every one of those places.

Senator REED. You can get a man from each State.

Mr. MARSHALL. There are to be nine, and they are all right in that immediate neighborhood; three of them are to be elected by the bankers and are to be bankers themselves; three of them are to be business men of that section; and then there are to be three appointed by this Federal board, and they are to be from that section, as I understand it—all local men.

Senator REED. They can not be local in the sense of being able to pass upon securities, except they have some method of testing it,

because you take two men from the State of Missouri, there are nearly 3,000,000 people in the State of Missouri, as you know. There are three large cities in the western part of the State, one with nearly three-quarters of a million, another with a population for banking purposes of 400,000, another with a population of 125,000, with 30 towns or cities above 10,000. No man can know the individual credits, nor can any three men know the individual credits, Mr. Marshall. You do not mean that.

Mr. MARSHALL. I do not mean for a minute that the first time a note comes up they are going to say "yes" and "no." They have got to build up a credit bureau, just as our banks have to do, and become acquainted with it, and that will take time; but in the meantime they are going to have their bank examiners and they are going to have their means of finding out these things.

Senator BRISTOW. The Government has its bank examiners. Why has not the Government means of knowing the reliability of this debt or that debt, just as well as a bank in Kansas City or St. Louis has?

Mr. MARSHALL. They are closer at hand—the bank examiners. He goes into a bank and examines all of its assets, of course, but naturally he can not tell, when he comes across John Smith's note, and says to the cashier, "Who is he?" "He is John Smith out here; he is a farmer." But he can not go out and see John Smith and see where he lives and verify that.

Senator BRISTOW. You do not expect one of these nine men, who will not even see the notes and who will never get inside of the bank——

Mr. MARSHALL. You are mistaken about that.

Senator BRISTOW. One of these nine men?

Mr. MARSHALL. One of the member banks. He will not go out into the country or anything of that kind. At the same time the members of that bank will have all the information there from the member banks. If that man offers a note of John Smith he should tell him at least that John Smith is one of our farmers here, that he knows his farm, etc.

Senator REED. He will tell them just exactly what he told the bank examiner when he goes to get a credit.

Mr. MARSHALL. My experience, as far as that is concerned, is that now and then you will find a banker who lies, and he is wrong; but, as a rule, the manager of that bank, I think, may be relied upon to tell the truth. My experience is that the banker who runs the bank is interested in his bank, although now and then you have a cashier, a president, or a bookkeeper who will go wrong; but this must be done on faith and confidence in men, and I believe that you have got to do that in this case as well as in other banks.

Senator BRISTOW. Why do you think this intermediate step necessary? You take 20 per cent of the capital of a bank at Salina, Kans., out of its banking capital and put it into this bank in St. Louis or Kansas City, and you take 5 per cent of its deposits and put them down there in order to create a bank to do business, in order that this bank might get its paper discounted at a critical period. Why should you impose such an unjustifiable burden on the country bank in order that it may get exactly what this regional bank comes to the Government for? Why can not the country bank go direct to the Government?

Mr. MARSHALL. I do not agree with you that you are imposing a burden on this country bank. You take the 10 per cent capital that the regional bank gets——

Senator BRISTOW. It is 20 per cent in the bill.

Mr. MARSHALL. Call it 10 per cent.

Senator REED. I understand that the bank capital is as to the bank deposits as one to eight, in round numbers.

Mr. MARSHALL. Yes; the capital represents simply a portion of the reserve of that bank. If you take a part of the reserves of the banks and start a bank with it, you have got $500,000,000 of deposits, or $600,000,000, we will put it. You are going to keep one-third of that as a reserve. Then, you have got $400,000,000 of it to use. You are not going to keep all of it in the vault.

Senator BRISTOW. You are taking 20 per cent of the banking capital out of the country community, and you are taking that to a distant city and compelling it to be invested there, and you do not permit more than 5 per cent dividends to be paid on it.

Mr. MARSHALL. Yes; but I am asking 6.

Senator BRISTOW. We will say 6, then. The bill puts it at 5, and that is money that is taken out of the community; it is the community's money which comes from the farmers and the merchants and the men in various occupations there, that they have put into their own bank for their own local community. You take that capital to a distant city, limit the amount they can earn on it, which is less than they are getting now in nineteen-twentieths of the banks, and compel this bank to take a part of its deposits down there, and then it gets in return the privilege of borrowing it back. That is the proposition that you are putting up to the country banker.

Mr. MARSHALL. But the money that you say you are taking away from them is now already away in New York, Chicago, or St. Louis, and under the law it is legal reserve.

Senator POMERENE. And where they can not get it when they want it.

The CHAIRMAN. It is tied up in stock and bond loans.

Mr. MARSHALL. I have never seen this worked out in tables. I am sorry to say that under the provisions of the bill it is necessary for any of the banks individually or collectively to become borrowers. I noticed from figures submitted—I have forgotten the name of the Member—in the House a day or two ago, showing that in order to comply with the provisions of this bill that reserve banks would have to borrow about $105,000,000 or $110,000,000, and the central reserve city banks about $150,000,000 or $160,000,000. I was very glad to see that if it should be borrowing at all that it should be by the city banks, because their assets are more liquid, and it gives them three years in which to accomplish it, and my prediction is they will never borrow a dollar, and that these banks will be able to take care of themselves and turn themselves over in ample time; in fact, the reduction in reserves as now fixed takes care of the capital stock investment.

Senator BRISTOW. What is the use, if you are going to reduce the reserve, which I think ought to be done, of creating this intermediate machinery in order to permit the country bank to avail itself of the advantage which the Government proposes to create for it? Why not let it have the full advantage of the reduction of the reserve?

Mr. MARSHALL. When you come to issuing notes—and I am very much afraid of the issuing of notes—I have always been opposed to asset currency, it seems necessary as an emergency currency and it should be for that purpose only. These reserve banks are built by reserves that are now dead—you make that a bank, and a bank of $600,000,000. You use that as active, working money, except the 33⅓ per cent of this $600,000,000 of deposits which is now dead capital, which is in the vaults as reserve, and you make that now a working item of $600,000, less 33⅓ per cent, or $400,000, which you are going to loan out to the various banks that want it. They are not all going to come in at once. They are going to come in as it is needed, and I believe that this reserve board and the board of directors that you have will weigh very carefully their power of rediscounting, and my opinion is that it will be very seldom if ever that the note issue will be resorted to. If I followed it correctly, you said that this note issue of the reserve banks was to take the place of national-bank currency as retired. I do not so construe it.

Senator BRISTOW. That is the provision of the bill.

The CHAIRMAN. Oh, yes; it is.

Senator REED. Taking care of emergencies without the issuance of money. Let us say that you establish at the city of St. Louis a regional reserve bank for the States of Missouri, Kansas, Nebraska, and Oklahoma; that is, four States—that is about what would go into that reserve. They have a capital of $500,000,000; and you want money to move crops. How is that bank going to give it? Why, the banks of Kansas City asked Mr. McAdoo for a loan of $5,000,000, and they got $2,750,000; and the banks of St. Joseph—I will not be sure of this—wanted $1,500,000. I think the banks of St. Louis wanted much more than those of Kansas City. That is only the State of Missouri. If you took in these other States you would find a very heavy demand from Senator Bristow's State of Kansas, because they have a large State and a population of 1,700,000. Then, there is Omaha, up in Nebraska; and then comes Oklahoma. It means to me that you would exhaust the total assets of that bank before you got well started.

Mr. MARSHALL. My understanding, Senator, is that the banks of the country—take the banks of Kansas and Missouri—are not going to do all of their business with this reserve bank. My understanding is that this is their reserve repository.

The CHAIRMAN. Part of their reserve.

Mr. MARSHALL. But they will continue to do business—the country bank—with Kansas City, St. Louis, or New York, but they will not do as much.

Senator REED. They will use the whole of that $5,000,000, and in crop-moving time they will not have enough to start on.

Mr. MARSHALL. $5,000,000 is only the capital. I do not think that this bank in the district you say would be able to furnish all the money they would need with $5,000,000.

Senator REED. I do not know whether they are going to be able to furnish enough to cut any substantial figure; you understand, I am not opposing this matter. I am trying to find out what it is going to be able to accomplish, and absolutely where we are going to bring up.

Senator BRISTOW. Excuse me. Mr. Marshall, referring to the suggestion you made a while ago, that this money would not be used

by these banks—why, we are to have no other kind of currency. The national-bank notes will be retired.

Mr. MARSHALL. I understand.

Senator BRISTOW. This will be substituted for it.

Mr. MARSHALL. My construction of it was that the currency issued by these reserve banks was simply to be resorted to in times of emergency or stress. So far as that is concerned, I am not altogether in sympathy with the idea of retiring the national-bank circulation at this time.

Senator REED. How will we keep it in flow when the banks protest about the bonds?

Mr. MARSHALL. So far as that is concerned, these 2 per cent bonds, we have them. Those 2 per cent bonds, as you all know, were put out under conditions and representations which caused the banks to run after them, because it was not a basis of circulation, but they were all going to be made depositaries, and every little bank in the country was going to get $25,000 or $50,000, and many of them were appointed; the money was to be put right back, and it hardly got warm until they began to call it. These bonds went up on that basis to 110.

Senator POMERENE. And the Treasury Department called it out of those depositaries where it was supposed to draw interest and put it in others where it did not draw interest.

Mr. MARSHALL. That is true as far as that is concerned. At that time I do not believe the banks were paying interest, but, at the same time, that was done.

Senator REED. They robbed the little banks.

Mr. MARSHALL. There is no use talking about that, it was done. It was necessary to find a provision, then, to maintain these 2 per cent bonds. They then turned around and made them the only bond that was available for circulation, taking off the 3 per cent bonds. The idea that I had in mind in order to bring these bonds back to par, or above—I can not name the section of the law, but you gentlemen can refer to it. There is one section of the law where banks of $150,000 capital and under must buy these bonds equal to one-fourth of their capital, and keep a circulation. Banks of $200,000 capital and above—that means the reserve city banks—can buy a minimum of $50,000. In other words, you take one of the big banks of New York City, and it can buy $50,000 worth of bonds and be within the meaning of the law. I would amend that section so that the reserve city banks of New York and Chicago and Kansas City and everywhere else should buy bonds at least equal to half of their capital.

Senator REED. In other words, you would treat them the same as the small banks have been treated.

Mr. MARSHALL. If it is a burden, let them carry their part of it. It is a just and fair thing to do, and you are making a market for your bonds.

Senator SHAFROTH. You would not have enough bonds to supply the demand.

Mr. MARSHALL. You had better have them above par and the banks running after them than to have them kicking them around. I went over the list the other day and figured out about 10 banks—5 or 10 in New York, 1 or 2 in Chicago and St. Louis, and so on—and

out of those 10 banks on that scale you would have a demand for $20,000,000 of bonds.

Senator REED. That sounds to me like a pretty practical suggestion.

Mr. MARSHALL. It is fair. You will find some banks that have a capital of $5,000,000 that have less than one-half million dollars of bonds. Suppose those banks during the panic would have had that much more circulation and would have had their full capital in circulation. If I had the national-bank act, I think I could refer to that section of the law.

These 2 per cent bonds going below par have, in a way, destroyed a little confidence. I have recently been out West—in fact, I have been spending most of my time out there—and I was talking to some brokers, and they told me there were men and women who had come in with $100 or $200 or $300 worth of bonds, 2 per cents and others, where they had seen these United States bonds going down, and they thought they would sell. Of course, there has been a great deal published on that subject.

Senator SHAFROTH. I thought nearly all of those bonds were held by banks—hypothecated.

Mr. MARSHALL. I said it was not altogether twos—different United States bonds. It had an effect on all bonds. If you will notice, 4 per cents have dropped from 114 to about 110, and our threes are just barely par. I doubt very much if you will find the threes, so far as the investment basis is concerned, maintained par.

I will go on with this. This will give the Government five members and the shareholders two, the Government, however, having a majority of the board, but the shareholders would have representation, which would seem to be but fair. In the board of directors of the Federal reserve banks the shareholders elect a majority, six to three. In this case the shareholders have a majority, but all have representation. This change would drop the Secretary of Agriculture and the Comptroller of the Currency from the Federal reserve board. While I fully realize that their presence on the board is desirable, yet I also fully realize that the gentlemen composing this board hold a very responsible position, and it will justly require all of their time and attention. They will, no doubt, find it necessary to visit the different reserve banks from time to time, and will find it advisable to make their stay long enough to become acquainted with the conditions and detail operations of the banks, and I very much doubt if the positions now held by the Secretary of Agriculture and the Comptroller of the Currency would admit of them giving the time to this position that it will require of each and every member of the board.

Now, as to section No. 13. That covers the Federal advisory council. It seems to me that this is unnecessary and not required. The close and active relations of the reserve board and the board of directors, it would seem, meets this requirement, especially if the shareholders have two members on the Federal board.

Section 16 is the next one I allude to, in reference to Government deposits. The Government proposes to charge interest on their deposits. My idea is that the Government should accept division of profits in lieu of interest the same as other depositors. In other words, if we go into partnership let us divide the profits.

Senator SHAFROTH. That does not require the Government; it says it "may."

Mr. MARSHALL. It is in there, and I think if you would leave it open, it would——

Senator BRISTOW. Public opinion will have something to do with that.

Mr. MARSHALL. If the Government is going to be a depositor the same as other stockholders, let it get interest when it is divided up the same as the other depositors.

Next is section 17, page 30. Collateral security to protect the issue of notes should have 20 to 25 per cent margin, and it would seem to me that security should include United States bonds and other securities that might be held by Federal reserve banks. In other words, this money is not to be issued to the Federal reserve bank. It is to be issued to the people and the reserve bank is going to be used as the distributor, but that bank is to furnish the collateral.

Senator BRISTOW. You think bonds are not good security?

Mr. MARSHALL. The assets of the Federal bank.

Senator BRISTOW. That suits me better.

Mr. MARSHALL. I would not confine it to simply collateral notes, commercial paper as defined and looked upon in this country as it is to-day. I believe that if any one class of credit is inflated it is commercial paper, and it has been going that way for some time.

Senator REED. Is it not true, Mr. Marshall, getting down to real absolute truth, that there are more mercantile failures of a disastrous character than any other class of failures?

Mr. MARSHALL. There are a good many of them; I have been in a good many.

The CHAIRMAN. When you speak of commercial notes, Mr. Marshall, being inflated, you really are grouping together all that class of accommodations extended to commercial men, are you not?

Mr. MARSHALL. I am speaking now of what we bankers call "commercial paper."

The CHAIRMAN. Are you speaking of commercial paper as qualified and narrowed down in this bill to paper drawn against actual shipments of merchandise?

Mr. MARSHALL. No; I am not putting it that way. In other words, I am not including any commercial paper——

The CHAIRMAN. That is the only kind of commercial paper the Federal reserve bank will have. They will only have commercial paper drawn against shipments of merchandise—cotton, corn, and wheat, and manufactured goods.

Mr. MARSHALL. I would say that the security, or the paper, if you please, that this board would require as collateral against notes issued would be different and would get quite a different scrutiny from the discounts of a member bank.

Senator REED. How are you going to tell whether notes are drawn against cotton, corn, and wheat? If you attached a warehouse receipt, then it would be all right, but without that how are you going to tell?

Mr. MARSHALL. Suppose you go to Temple, Tex., which is a big cotton-shipping point, and there are 1,000 bales of cotton which is

going to Liverpool. That will go by the way of Galveston. They draw their draft, with railroad bill of lading attached, and send it through to be exchanged for the bill of lading. That is what I call a draft against existing values.

Senator REED. They have nothing in this bill requiring any such thing.

Mr. MARSHALL. I think it says "against existing values."

Senator REED. There is nothing in this bill, as I understand it, that requires a bill of lading or warehouse receipt to be attached.

The CHAIRMAN. It does require that the Federal reserve board shall clearly differentiate these bills and make them bills which are actually based upon commercial transactions, and it is intended that they shall be limited to transactions of that character.

Senator REED. Upon commercial transactions. That is very indefinite.

The CHAIRMAN. It is not indefinite when you come to deal with individual bills, Senator.

Senator REED. I am a merchant. I am a retail merchant, and I have a stock of goods which cost $1,000,000. I am in debt to the wholesale houses for a lot of it, and I give the wholesale houses my notes. I have creditors who are owing me, and I get their notes. Would that come within the purview of this bill?

The CHAIRMAN. It would. You take a shipment of stoves to this retailer, and that retailer gives his note in payment for those stoves, to be paid for at a particular time. It is assumed that those stoves would be sold out to country people and the money from them used to liquidate that.

Senator REED. The trouble is that the money collected for the stoves may be collected and may not; but if it is collected there is no guaranty that it will follow that the money will go back to the discharge of the note given by the retailer to the wholesaler, and the fact is that of all men who are liable to break out any moment and to fail disastrously it is these merchants.

The CHAIRMAN. If they mix up their accounts in that way.

Senator REED. They all mix them up.

Mr. MARSHALL. You do not get much more paper such as you describe there; that is, you take the merchant, for instance, in Kansas City—the wholesale merchant who gives his note to the manufacturer from whom he buys, and then the manufacturer comes to the bank and discounts it. That paper has really passed away, because the wholesale merchant in St. Louis or Chicago borrows through the note broker on his open credit, on his statement as a basis of credit, and from his bank in Chicago, St. Louis, or New York. That is why I said that such paper was inflated, if any line of credit is inflated. Within the past 10 or 15 years what we call our "note brokers" have sprung up, and they are the distributers of paper and they borrow on their open note.

The CHAIRMAN. That permits the very evil Senator Reed was describing.

Mr. MARSHALL. Single-name paper.

The CHAIRMAN. That is what it does and encourages it.

Senator REED. There is no way to stop it on that class of paper.

The CHAIRMAN. This plan would not include that class of paper.

Senator REED. Without it you would not have anything according to the statement of Mr. Marshall.

Mr. MARSHALL. Oh, yes; you would. I was just saying that in the broad sense commercial paper such as I am describing now, while the majority of that paper is good, it is renewed over and taken up and renewed. I believe that any currency that is issued on an asset should, on what we call merchandise, such as corn, cotton, or wheat, which is seeking a final resting place, and that is to be absorbed and going to be paid for in money.

Senator REED. Then you would attach a warehouse receipt?

Senator POMERENE. You discriminate and designate that as prime paper?

Mr. MARSHALL. I discriminate and designate that as prime paper, given for existing values—that is, in the process of transportation, you might say, or that is to be consumed and paid for.

Senator REED. If you were going to loan money on that and be perfectly safe, you would take a bill of lading?

Mr. MARSHALL. Or a warehouse receipt or something of that kind.

Senator REED. There is nothing in this bill that says that there shall be attached anything of that kind.

Mr. MARSHALL. It says, "Drawn against existing values," etc.

Senator BRISTOW. Suppose that a merchant at Kansas City has a large stock of goods and he has not the money to pay for them and he wants to discount his bills, which most of them want to do, if they are good?

Mr. MARSHALL. They must do it, if they are successful.

Senator BRISTOW. He goes to the bank and borrows the money and pays the wholesaler and takes the discount. His note is given for 30, 60, or 90 days or probably 6 months—I don't know. Do you mean to say that that merchant's notes in that bank are not the assets that could be available here on the 90-day note?

Mr. MARSHALL. As far as that is concerned, I am inclined to think that this may cover that.

Senator REED. If it does not cover it, it does not do much good, does it?

Mr. MARSHALL. Oh, yes; we have plenty of instances. When we go to move the crop is when we need the money. The movement of cotton absorbs more real money than any one product. The bankers in the South in the cotton district provide and get most of their money for planting along in April and May, and that is for the planting purpose and does not bring on a stringency or anything, because it is bank credit; but when September and October comes, then that is the money to move the cotton, and it takes a good deal of money. With the exception of probably September and October—maybe commencing the latter part of August—you will find New York exchange at a premium the year around in Chicago, St. Louis, Kansas City, and Galveston and every place; but in those months when the money is coming back from the East and going there you will find it at a discount, but just as soon as the movement comes and a whole lot of cash is required you will begin to see New York exchange at a premium.

Senator REED. Coming back to this other question we were just discussing: A man has 100 bales of cotton. He sells that to a cotton

broker or merchant in Galveston and he draws upon that man for his money. Of course that is a transaction to be settled in a very few days. He puts up his draft at the bank, and that would be good to issue assets against, because back of it lies the cotton. Let us take the man now who has bought the cotton and put it in his warehouse. He goes to the bank and borrows money. The cotton is back of that just the same as it was in the other transaction. Would you say that was good?

Mr. MARSHALL. I would say that was good, if you got your margin.

Senator REED. Suppose instead of it being cotton in the bale it is cotton in the roll, and silk and woolen goods.

Mr. MARSHALL. Oh, you mean it is manufactured?

Senator REED. That it has been manufactured. Would you say that man was not entitled to those benefits?

Mr. MARSHALL. He certainly is entitled to those benefits.

Senator REED. You have gotten down to a point that the merchant's note should be accepted if he is a solvent man and has a stock of goods?

Mr. MARSHALL. Certainly.

Senator REED. Then you have gotten down to the point where that merchant's note issued and sold by a broker and scattered throughout the country is a thing that can be put into the banks and currency issued on it?

Mr. MARSHALL. Of course it is good for value, if you follow it through.

My idea there was that the line can be drawn, and that is why I put in there what are the assets of the bank. These Federal reserve banks are going to have United States bonds and municipal bonds, etc., and I should say that the assets of that bank is the thing that wants to be scrutinized. I do not care what their security is, if it is good. But then the time limit must be considered. Every one of these notes must find their home as quickly as possible.

Senator REED. You say that is a margin of safety against taking all those assets, of course throwing out those found to be bad. You would put in 20 per cent?

Mr. MARSHALL. Twenty per cent margin in place of issuing it on par.

Senator BRISTOW. Why would not a few good mortgages do to put in as assets of a bank?

Mr. MARSHALL. There is nothing that I like better than a good real estate farm mortgage, as far as being good is concerned, but we have not a good market for that. You want to have something there that is liquid if you have to realize on it. It is either going to be paid or there must be a market for it. There is really not a built-up active market for farm mortgages.

Senator BRISTOW. Mr. Marshall, you interest me there very much. Here is John Wanamaker, Woodward & Lothrop ——

Senator REED. I wish you would go into that in the morning.

Senator SHAFROTH. Mr. Marshall is not going to be here to-morrow morning.

Mr. MARSHALL. I will stay here and arrange to catch the 11.45 train.

Senator POMERENE. All right; we will question you further in the morning.

The CHAIRMAN. To-morrow, Mr. William H. Berry, of Chester, Pa., is to be with us.

Mr. MARSHALL. Can you start with me at 10 o'clock?

Senator POMERENE. You are giving the practical side of this matter in a very intelligent way. Some of these bankers only see the matter through a banker's eye.

Mr. MARSHALL. I am interested not as a bank president. I am a stockholder—a little one—in country banks and a reserve city bank.

Senator POMERENE. I have a bill of lading here that I think you will see the benefit of.

Mr. MARSHALL. All right.

The CHAIRMAN. We will now adjourn to meet to-morrow morning at 10 o'clock sharp.

(Thereupon, at 6 o'clock p. m., the committee adjourned to meet to-morrow, September 17, 1913, at 10 o'clock a. m.)

WEDNESDAY, SEPTEMBER 17, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.15 o'clock a. m.

Present: Messrs. Owen (chairman), Reed, Pomerene, Shafroth, and Bristow.

FURTHER STATEMENT OF F. E. MARSHALL, OF NEW YORK.

The CHAIRMAN. Mr. Marshall, the committee will be glad to have you conclude your comments of yesterday upon the pending measure. Have you a written memorandum which you desire to submit?

Mr. MARSHALL. No, Mr. Chairman; I have just some memoranda for me to refer to. I think yesterday afternoon when the committee adjourned that we were discussing section 17 of the bill, as to collateral security.

Senator POMERENE. Yes; I believe you were discussing that feature.

Mr. MARSHALL. Collateral security to protect the issue of notes. The bill now provides that that security be put up to par.

Senator POMERENE. Yes.

Mr. MARSHALL. And I should say that it should be a margin of 20 to 25 per cent.

Senator POMERENE. Do you mean above?

Mr. MARSHALL. Yes; above——

The CHAIRMAN (interposing). You mean by that that as to those notes to be issued by the Government, you think that the member bank getting a loan from the Federal reserve bank should also put up a light margin above the amount of that loan?

Mr. MARSHALL. Yes, sir. Strictly construing the law, it speaks of discounting certain paper. You construe that to mean that if the member bank came to the Federal reserve bank to borrow money, it would bring a note of, let us say, John Smith, for $5,000 or $10,000, and the Federal reserve bank would discount that note. I have

always preferred, as a banker, to have a bank come to me to borrow. I always preferred, if a banker borrowed money from me, rather than to discount his customer's note, that I would take the bank's note, with his bills receivable as collateral security. Do you understand the distinction I make?

Senator POMERENE. Yes; you mean to make it a primary obligation of the bank?

Mr. MARSHALL. I was saying, Senator Pomerene, that this language would seem to be rather that you were aiming to discount the paper of the bank. I always prefer, in lending money to a country bank, to take its own note, with its bills receivable as collateral. Then you get a margin of 35 or 40 per cent, taking the customer's note as collateral to work on. You discount the note of John Smith, on the indorsement of the bank, you have.

Senator POMERENE. In making that statement, do you have in mind the provision of the bill which permits the board to demand at any time additional security from the bank?

Mr. MARSHALL. Certainly. That is why I put in my suggestion of having a margin. And it would seem to me that this security should include United States bonds and other securities that the Federal reserve bank might have.

Senator POMERENE. I think that is a good suggestion.

Mr. MARSHALL. Now, in this same section 17, page 31 of the bill, where it refers to the redemption of the notes—

> Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank through which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States.

It says the notes shall be charged against the Government deposits. I would not give this privilege; it seems to me no bank should be given the privilege of making a charge against the Government account. In other words, they should not charge these notes against the Government account and then return them for redemption, but should return them to the Treasury for redemption.

Senator BRISTOW. If they charged them against the Government deposits, the Government would not have any way of knowing what its balance was at a given time.

Mr. MARSHALL. No. Then, there is a redemption fund provided for that purpose. Let it go through the regular course.

The CHAIRMAN. I think that is a substantial objection.

Mr. MARSHALL. Yes. It is a bookkeeping matter; but it is important. The 5 per cent redemption fund that the Government has for the redemption of notes issued, I would have in addition to the 33½ per cent required reserve carried in the vault of the Federal reserve bank. You make that redemption fund now as a part of the 33½ per cent reserve. I would make it in addition to the reserve.

The CHAIRMAN. Do you think it is necessary to have these notes redeemed at the Treasury of the United States at all, since they are redeemable by the Federal reserve bank?

Mr. MARSHALL. Well, it is a Government note.

The CHAIRMAN. I know; but these reserve banks are agents of the Government and are acting as redemption agents. Would it not really tie up that additional amount of money to send them to the Treasury?

Mr. MARSHALL. Yes; of course it would tie up that amount of money—not, however, if you would increase the reserve in the vault. If you only have 33⅓ per cent reserve in the bank's vault, it would tie up more; but if you increase that 33⅓ per cent by 5 per cent more, there would be the same amount of money. But I think with the custom of redeeming notes at the Treasury—then you would have part of your own circulation out, which was redeemable at the Treasury, and part which was not, which would make a confusion.

The CHAIRMAN. If it was made redeemable at the banks alone, the bank report would contain a constant record of that; whereas otherwise, there would have to be Treasury account, and at the same time an account of the bank coincident with that. Of course, that is not a matter of vital importance.

Mr. MARSHALL. Yes. Now, I will continue at the same page of the bill, or rather, the next page, 32, line 21, reading as follows:

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by the deposit of Federal reserve notes, whether issued to such bank or to some other reserve bank.

It would seem to me that a Federal reserve bank which desired to reduce or retire its note issues should be required to do so by the deposit with the Treasury of the United States only of its own notes, or gold, or lawful money of the United States and should not make the redemption deposit for retiring such issues with any Federal reserve agent and should not make the retirement by the deposit of note issues of other Federal reserve banks. My understanding is that one Federal reserve bank is not liable for the issue of another Federal reserve bank; is that right?

The CHAIRMAN. Yes. That is, the Federal reserve bank does not itself issue the notes. The bank is merely a borrower of these notes.

Mr. MARSHALL. I understand that.

The CHAIRMAN. And the banks are not issuing the notes, and hence they are not responsible for them, except to the extent that they borrow them.

Mr. MARSHALL. Certainly. Well, they are responsible for them, are they not?

The CHAIRMAN. To the extent that they borrow them, but no more.

Mr. MARSHALL. But this bill would provide that a bank located, for example, at St. Louis, if it should take an issue of these notes from the Government, when they got ready to retire these notes they could send in the notes of another Federal reserve bank located in New York, and thereby retire their own circulation.

The CHAIRMAN. Yes.

Mr. MARSHALL. Well, I do not think that is right.

The CHAIRMAN. But in every case the notes of the various banks are identical.

Mr. MARSHALL. Yes; but the national bank to-day is responsible for its own note which it issues. You are going by this bill to make the Federal reserve bank responsible for the issues of other banks.

The CHAIRMAN. But these Federal reserve notes are issued upon the responsibility of the Government of the United States, and then loaned to the Federal reserve bank; and the bank is responsible only for such notes as it borrows.

Mr. MARSHALL. Only for such notes as it borrows?

The CHAIRMAN. Yes; only for those. Now, whether it returns upon retirement these identical notes which it borrowed, whether they are earmarked, or whether they are not earmarked, would make no difference.

Mr. MARSHALL. I understand, but they have got to deposit gold or lawful money with the Treasurer of the United States.

The CHAIRMAN. Certainly.

Mr. MARSHALL. Well, I think the deposit for the purpose of reducing the liability of a bank upon its note issues should be a deposit of its own identical note, and not the notes of another bank.

The CHAIRMAN. Is your suggestion, then, that these particular notes should be earmarked?

Mr. MARSHALL. No, Mr. Chairman; I want nothing of the kind.

The CHAIRMAN. Well, would they not have to be earmarked in order to return the identical note?

Mr. MARSHALL. Well, as I understand, you are going to provide by this bill for a number on these notes; and I want to have them earmarked just as little as possible.

The CHAIRMAN. I do not think they ought to be earmarked at all.

Mr. MARSHALL. Well, that is understood. When you mark a note you put a question mark on it.

Senator REED. If a bank goes down to the Federal Treasury and gets $1,000,000 of notes issued by the Treasury clerk, and another bank goes and gets another $1,000,000, and so on—it is not necessary to extend the illustration further. But finally there is $10,000,000 out in that way.

Now, the Government is interested in being paid back its money. If you are one of those bankers and you take the same $1,000,000 that you borrowed and bring it back, of course the Government is made whole.

Now, if you take the $1,000,000 that I borrowed, which is the same kind and class of money, and carry that back to the Treasury, why is not the Government made whole just the same? There is just $9,000,000 of that money still outstanding in either event. It is all the same class, character, and kind of money.

Mr. MARSHALL. My suggestion, Senator Reed, was not to protect the Government. Each one of these Federal reserve banks is responsible for the amount of notes which it takes out.

Senator REED. Yes.

Mr. MARSHALL. For its own notes.

Senator REED. Yes.

Mr. MARSHALL. I say then, going on the theory that there would be a mark on them——

Senator REED (interposing). Why is there any necessity for doing that?

The CHAIRMAN. Mr. Marshall is addressing himself to the form of the bill as it was reported to the House; and he agrees with us that the Federal reserve notes should not be earmarked.

Mr. MARSHALL. Yes; but if they are going to be earmarked—which this St. Louis bank, which I have been mentioning, for instance—it may be numbered 7, it is going to be liable for every note that is marked with the number 7, for instance.

Senator REED. Well, if you fixed a liability on the bank to redeem, not $1,000,000 of its money, but a particular $1,000,000 out

of that $10,000,000 that has been mentioned, then, of course, you must identify that $1,000,000.

Mr. MARSHALL. Yes; but you are doing so if you earmark them.

The CHAIRMAN. Well, you agree that the notes ought not to be earmarked?

Senator REED. It would introduce interminable confusion.

Mr. MARSHALL. We agree on that, but I am taking the House bill as it now provides.

The CHAIRMAN. All right, Mr. Marshall; we understand.

Mr. MARSHALL. I will now refer to page 33 of the House bill, line 13, where it says:

> It shall be the duty of every Federal reserve bank to receive on deposit at par and without charge for exchange or collection——

And so on. I predict that this will be very heavy and expensive operation, and will absorb a large amount of money.

Senator REED. Will you please read that again?

The CHAIRMAN. Will you please read that portion of the bill a little more fully, Mr. Marshall?

Mr. MARSHALL (reading):

> It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned.

Senator REED. I understand what you refer to now. You have read enough of the context.

Mr. MARSHALL. There are a great many checks afloat—too many of them to make it proper to bind the Federal reserve bank down to par. We should let the business itself take care of that. Do you not think so?

Senator BRISTOW. Do I understand that if I were in Missouri somewhere and gave a bank there a check on a bank at Salina, Kans., and it was presented to one of these member banks, both banks being members of this regional association, that that bank is compelled to take that check?

Mr. MARSHALL. It is compelled to take that check at par, yes, according to this bill. In other words, if your bank at Salina, Kans., was a member bank and any other bank that was a member should deposit that check which came in to them with the Federal reserve bank, they must take it at par. Now, as a rule, that bank at Salina would charge 10, 15, or 25 cents.

Senator BRISTOW. Well, in some places they do and in others they do not make a charge, but let us suppose that the check was not good.

Mr. MARSHALL. Well, that is a banking matter. They should not take it unless it has some good indorsers. That is simply a business transaction.

Senator REED. Well, let us suppose this sort of case: We have been dealing with the question of exchange. Let us suppose that a large institution in a bankrupt condition, and with no funds in its own bank, should draw a check for $1,000,000—that is a very large sum, of course, but we will take an extreme case—and the institution should cash that check at a member bank with a capital of only $100,000; but the bank thought the check was good and indorsed

it. Now, under this bill the regional bank would have to take that check, would it not, whether it was good, bad, or indifferent, or does the language of the bill simply relate to exchange?

Mr. MARSHALL. Well, it means simply taking checks, and so on. I do not think it means to bind the regional bank; the managers of the bank must always say "yes."

Senator REED. Of course the first bank does not have to say "yes"?

Mr. MARSHALL. No; nor the regional reserve bank.

Senator REED. Well, I think that language in the bill is broad enough to cover that.

Mr. MARSHALL. My idea is that these banks are going to be conducted like other banks.

Senator REED. I am speaking of that language in the bill. It says: "It shall be the duty of every Federal reserve bank," and so on.

The CHAIRMAN. If you look at that language I have interlined you will see what is meant. Let me explain that, if I may. If that were written out in full it would read this way:

It shall be the duty of every Federal reserve bank to receive on deposit [from member bank], at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors [member bank] or——

Mr. MARSHALL. Certainly.

The CHAIRMAN. And that might include private checks—

or by any of its depositors [member bank] upon any other depositor [member bank] and checks and drafts drawn by any depositor [member bank] in any other Federal reserve bank upon funds to the credit of said depositor [member bank] in said reserve bank last mentioned, nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

That would still permit the member banks to charge their patrons.

Mr. MARSHALL. Certainly.

The CHAIRMAN. And would still permit the member banks, so far as they themselves are concerned, to par their own items through the Federal reserve bank.

Senator POMERENE. It is not intended to apply to the collection of checks drawn by an individual depositor on a member bank?

The CHAIRMAN. No. The member bank may par such checks, however, through the Federal reserve bank, so far as the member bank is concerned.

Senator REED. Well, I am taking a different view of that or else I am not making myself understood. I am not dealing for the moment with the question of the exchange that may be charged off. I am dealing with the question that this language seems to make it incumbent upon the reserve bank to cash a check.

Mr. MARSHALL. No; I do not think that, Senator Reed.

Senator REED. Well, I think you can say that the language is susceptible of the other construction; and certainly in drawing a law we ought to remove any possible ambiguity.

Mr. MARSHALL. Yes.

Senator REED. And it ought to be framed so that it clearly applies only to the matter of exchange.

Mr. MARSHALL. Well, my idea was to get away from what I know, from discussing the matter with one banker at one time; I know that he had the idea in view that he could take this great bundle of

items he had in the process of collection all over the United States and go and dump them into this Federal reserve bank.

Now, every city bank has got a large amount of money tied up, running all the way from Maine to California, in the process of collection; and the man I spoke of was working on the idea that he could take all of those checks and dump them into the reserve bank and convert them immediately into what we call reserve funds. Do you not see?

Senator BRISTOW. Yes.

Mr. MARSHALL. And it would rather sound to me as if they were aiming to put that burden on the Federal reserve bank, which would tie up a lot of money in the first place, and be expensive; and I just thought I would call attention of the committee to it for that reason. Now the next suggestion I have——

Senator REED (interposing). Will you wait just a moment, Mr. Marshall? I think this language ought to go in after the word "patrons" on line 23 of page 33:

Nothing herein contained shall be considered or be construed so as to require any banks to receive any checks or drafts which it believes to be unsafe.

Mr. MARSHALL. Yes; that would prevent them from being compelled to handle it when it was unsafe.

Senator BRISTOW. Well, Mr. Marshall, if you are going to take up some other subject now I would like to take up the matters we were considering yesterday afternoon.

Mr. MARSHALL. All right. I will refer to section 19, relating to refunding bonds. Now, I have not any memorandum on this for my guidance. As I said to the committee, I am not in sympathy with the bill to the extent of refunding the 2 per cent bonds and retiring the national bank circulation at this time.

The CHAIRMAN. Do you think it better to defer that?

Mr. MARSHALL. Yes; I think it better to defer it.

The CHAIRMAN. Would you think it advisable to have a provision in the bill for retiring a part of these bonds that are now on the market?

Mr. MARSHALL. I think, Mr. Chairman, that I would amend that law so as to make the national banks take out circulation alike, and thus create a demand for the present 2 per cent Government bond.

The CHAIRMAN. So as to absorb a quantity of them?

Mr. MARSHALL. So as to absorb them all and make a demand for them.

The CHAIRMAN. You might create an overdemand for them.

Mr. MARSHALL. It would be better to have an overdemand than an underdemand. But you can figure that out to adjust it.

The CHAIRMAN. Yes; relatively.

Mr. MARSHALL. As I say, you can take a dozen or two of banks now in the larger cities and by increasing the circulation very little you can get a demand for $25,000,000 to $50,000,000 of bonds. It would bring these bonds to par, in my opinion.

The CHAIRMAN. Well, there is no doubt about that; not the slightest.

Mr. MARSHALL. I look upon bonds which are below par as very undesirable and unsafe.

The CHAIRMAN. I agree with you upon that.

Senator POMERENE. What do you regard as the cause of these bonds falling below par? I understand what is given as being the reason but I should like to know what is the actual reason.

Mr. MARSHALL. Well, it is lack of demand, so far as that is concerned. The law provides for the larger banks taking out a minimum amount. Of course, the supply is more than the requirements. I have read something about it but I know nothing about it at all personally, but it has been a strain all the time to keep the bonds at par.

Senator POMERENE. Yes. I had in mind a statement which is current to the effect that they were being purposely discredited. I have no doubt that you also have heard of that.

Mr. MARSHALL. Yes, sir.

Senator POMERENE. Now, the question is, is there any foundation for that statement?

Mr. MARSHALL. I know nothing about that.

Senator BRISTOW. Why would the banks try to depreciate $600,000,000 or $700,000,000 worth of property which they own? That is the question to my mind.

The CHAIRMAN. The term "they" is pretty broad when making a charge against anybody

Mr. MARSHALL. Yes. Now, this charge has been made as to a few.

The CHAIRMAN. Two or three.

Mr. MARSHALL. So far as that is concerned, the market for United States bonds, as well as for practically all other bonds, is largely in one center, and that is New York. If you want to sell even a Government bond in San Francisco, or St. Louis, or Chicago, you will wait until the broker gets a quotation on it in New York, and he is probably selling it in New York for delivery in New York.

Senator BRISTOW. Well, the quotation may be in New York, but these bonds——

Mr. MARSHALL (interposing). Yes; the real purchaser is in New York as a rule.

Senator BRISTOW. That is, if a bank at Salina wants to increase its circulation——

Mr. MARSHALL (interposing). Or decrease it.

Senator BRISTOW. If it wants to sell $25,000 of these bonds, they would sell them in New York?

Mr. MARSHALL. They would sell them in New York. They may do so through their Kansas City correspondent.

Senator BRISTOW. Yes.

Mr. MARSHALL. But the Kansas City correspondent will get for the broker in Kansas the quotation in New York.

Senator BRISTOW. And suppose they wanted to buy?

Mr. MARSHALL. It would be the same way.

The CHAIRMAN. $15,000,000 or $20,000,000 of these bonds would fix the market price, would it not?

Mr. MARSHALL. Yes; when I was in St. Louis I sold them always in New York.

Senator BRISTOW. Of course these 2 per cent bonds would not sell as an investment?

Mr. MARSHALL. No; I doubt if you could keep up that amount of even 3 per cent—$700,000,000. I think it is very doubtful.

Senator BRISTOW. Speaking of retiring these bonds, suppose that we should issue a currency, put a gold reserve behind it—the same as our greenbacks are—and take that up and substitute instead of a bonded national debt a noninterest-bearing national debt in the shape of currency, like our greenbacks——

Senator SHAFROTH (interposing). With the 50 per cent gold reserve?

Senator BRISTOW. I would put it at even more—at 60 per cent or more.

Mr. MARSHALL. Well, you are opening the door for redemption faster than you have got the money to do it, of course. But it would probably be safe.

Senator BRISTOW. I think Mr. Alling in the article which he prepared suggests about 70 per cent gold reserve.

Senator SHAFROTH. Yes; I read that last night.

Senator BRISTOW. Seventy or seventy-five per cent.

Mr. MARSHALL. I have no doubt 75 per cent would be safe, so far as that is concerned. You would never have any trouble.

Senator SHAFROTH. Well, would not 50 per cent be sufficient, if you had in the law itself a provision directing the Secretary of the Treasury to buy gold, if necessary, and sell bonds, if necessary, in order to maintain that 50 per cent reserve?

Mr. MARSHALL. Well, no doubt it would be safe; but you would never want to buy the gold or sell the bonds except when you needed it, and then you would be at the mercy of the fellow that had gold to sell or could buy your bonds. It is like we had to put out the 4 per cent bonds; it had to be done at the mercy of the man who had the gold. And yet the 4 per cent bonds, after they got them, sold at a premium of 32 or 33.

Senator SHAFROTH. But that would not cost as much as the payment of interest on these bonds which the banks hold, of $14,000,000 a year.

Mr. MARSHALL. Well, so far as that is concerned, as long as we are a borrowing Nation, and have got out already these 2 per cent bonds, we must figure on that. It is a fact that they are out at the present time, 2 per cent interest bonds, payable at the option of the Government.

Senator SHAFROTH. No; they are not payable at the option of the Government.

Mr. MARSHALL. Yes; I think they are payable at the option of the Government, Senator Shafroth.

Now, I would like to correct something that some member of the committee said last night, that the purpose of these Federal reserve banks was to issue currency to take the place of national-bank notes. I think you are mistaken. I read that law over again, and it says distinctly that the issue of this currency is for these banks, and for them only. There is no provision in this bill——

Senator SHAFROTH (interposing). Well, there is a provision for the retirement of these 2 per cent bonds.

Mr. MARSHALL. Yes; but it does not say that it shall be done through the issue of currency through these banks.

Senator BRISTOW. What becomes of that, then?

Mr. MARSHALL. There is no such provision.

Senator SHAFROTH. Do you mean to say that we are going to give 3 per cent instead of 2 per cent interest, and have the national-bank circulation still in existence?

Mr. MARSHALL. No; you are going to retire that.

Senator SHAFROTH. Then there would be a contraction in the currency?

Mr. MARSHALL. That is the way I should see it.

Senator SHAFROTH. That would be a crisis that would be terrible.

Mr. MARSHALL. One moment, please. I had that here before me. It is under the section of the bill relating to note issues. It says:

That Federal reserve notes, to be issued at the discretion of the Federal reserve board for the purpose of making advances to Federal reserve banks as hereinafter set forth, and for no other purpose, are hereby authorized.

Now, where do you get such a provision for retirement?

Senator SHAFROTH. Well, if they retire these national-bank notes it is supposed that some currency shall take their place and that there will be a demand by the national banks for this currency to take the place of their own bank notes.

Mr. MARSHALL. Well, this section provides that the basis of the security for this issue of notes shall be the assets of the bank, 90-day notes, etc.

Senator SHAFROTH. Yes.

Mr. MARSHALL. You do not think that that contemplates getting out a currency for the retirement of these national-bank notes, do you?

Senator SHAFROTH. Yes.

Mr. MARSHALL. My construction of this language is that that is to be an emergency currency only.

Senator SHAFROTH. Yes.

Mr. MARSHALL. And it certainly should be held for that purpose.

Senator SHAFROTH. I think it ought to be limited to emergency currency; but I think the national-bank note should be retired by the substitution of United States notes.

Senator REED. But you are talking about what you believe, while——

Mr. MARSHALL (interposing). While I am talking about what this bill provides.

Senator SHAFROTH. Yes.

Senator REED. This bill provides for the retirement of these national-bank notes, without any substitute, or else for this emergency currency as a substitute; one or the other?

Senator SHAFROTH. If that were the case, you would have a crisis such as we had in 1893.

Senator REED. All of which leads me to believe that we ought to rush this bill through in the next two or three days without reading it.

Mr. MARSHALL. Now, in section 21 of the bill it says:

That so much of sections two and three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, be, and the same is hereby, repealed.

In other words, the 5 per cent redemption fund the national banks now carry with the Treasurer of the United States for the redemption of national-bank notes is now carried as a part of the national-bank reserves. You repeal that part of that act. They have got to carry the 5 per cent redemption fund and it is not a part of their reserve.

I suggest that if that is to be done that that redemption fund of 5 per cent should be reduced to 2½ or 3 per cent. You will relieve a considerable amount of money that is now tied up for redemption purposes.

Now, I have not looked into the redemption bureau, but my experience as a banker is—for instance, while I was in New York we had $1,000,000 currency, and we had $50,000 redemption fund with the Treasurer of the United States. We seldom had more than $5,000 to $10,000 of redeemed money. That is charged to our $50,000. We might make it good—in other words, the $25,000 to $40,000 that is tied up there——

Senator BRISTOW (interposing). Is never used?

Mr. MARSHALL (continuing). Is never used. It is tied there in the Treasury for that purpose. Now, if that is checked up, you will find that at certain times that 5 per cent redemption fund is overdrawn. In other words, when they redeem this currency, they do not promptly make it good.

Senator BRISTOW. They do not promptly make it good to the bank?

Mr. MARSHALL. That is the fault of the Government; the fault of the fellow in charge.

Senator SHAFROTH. I would like to call attention to this language in the report of the House committee upon this bill, as Chairman Glass says that these bonds are redeemable after 1930:

> The bonds now have no due date, and while the Government may redeem them after 1930 they are not necessarily payable after that period.

Mr. MARSHALL. That is right. Therefore they are redeemable at the option of the Government.

Senator SHAFROTH. Yes, and not until 1930; not now.

Mr. MARSHALL. Yes; but you want to redeem your bonds.

The CHAIRMAN. There is no danger whatever of any disturbance from the provision in this bill, because the possible maximum is only $39,000,000.

Mr. MARSHALL. You mean that much a year.

The CHAIRMAN. Yes.

Senator SHAFROTH. $37,000,000 a year. But you can, under this bill, get out new bank notes, under the provision of this bill, after the 20 years elapse. They do not limit that. There is a provision in there that they can go on and organize new national banks and take out new currency until the 20 years expire.

Mr. MARSHALL. Yes.

Senator BRISTOW. Or they can surrender their currency.

Senator SHAFROTH. They can surrender their currency, yes; they can do that now.

Mr. MARSHALL. Now, section 23 of the bill relates to bank examiners.

> That the examination of the affairs of every national banking association authorized by existing law shall take place at least twice in each calendar year and as much oftener as the Federal reserve board——

I would put in there the words "Comptroller of the Currency" before the words "Federal reserve board"; and also after the words "Secretary of the Treasury" in line 10 I would put the words "the Comptroller of the Currency."

Line 19, "amount whereof shall be determined"—as to the salaries I would put it that the Secretary of the Treasury and the Comptroller of the Currency should fix the salaries of bank examiners.

Senator REED. Well, now, why have a subordinate sit with his superior officer to fix those salaries?

Mr. MARSHALL. The bank examiners generally are closer in contact with the active work. Do you mean that the comptroller should not have power with the Secretary?

Senator REED. Yes.

Mr. MARSHALL. The comptroller knows what the examiners are doing and the duties of the examiner better than the Secretary.

Senator REED. Yes; but you have got to have a superior in every office.

Mr. MARSHALL. That is true.

Senator REED. Now, the Secretary would naturally consult, if he was a man of proper discretion, with the comptroller; but to give the comptroller an equal authority with the Secretary—does the comptroller have the appointing power of examiners?

Mr. MARSHALL. Yes; he has the appointing power. The comptroller appoints the bank examiners.

Senator REED. But the Secretary of the Treasury appoints the comptroller, does he not?

Mr. MARSHALL. No; the Treasurer appoints him.

Senator REED. But on the Secretary's recommendation.

Mr. MARSHALL. He is a presidential appointee, and the comptroller appoints the examiners with the approval of the Secretary of the Treasury.

And I put it that way because—now, this goes on here, and I think the way the examinations are provided for here in the bill is very burdensome.

The Comptroller of the Currency shall so arrange the duties of national-bank examiners.

That is the same as it is now.

That no two successive examinations of any association shall be made by the same examiner.

That is wrong, because an examiner knows more after he has examined a bank 5 times or 10 or 20 times than he did before.

The CHAIRMAN. Do you think that the purpose contemplated by that provision might be accomplished by providing merely that other examiners should be allowed to come in?

Mr. MARSHALL. Yes, sir.

The CHAIRMAN. And you think it is better not to bind the comptroller down to that arrangement as contained in the bill?

Mr. MARSHALL. My idea is to make him responsible, my idea being that all examinations of Federal reserve banks and the member banks and the national banks should be made by the direction of and to the Comptroller of the Currency. All requests for special examinations by Federal reserve board should be made to the comptroller, who should have charge of all examiners and their work and

the supervision of all banks, Federal examinations not to be oftener than twice a year, special examinations as often as necessary and as often as requested by the Federal reserve board.

The CHAIRMAN. So that your suggestion is as to page 41, line 18, that the whole provision should be that the examination should not be more than twice a year?

Mr. MARSHALL. Yes. Suppose you have got a trust company. The State is examining that company twice a year, or more and the Comptroller of the Currency is examining it four times or more; and you would have examinations for that company nearly all the time. Now, banks are like everything else, there are good banks and bad banks. Some banks would be better off without examination at all, and others would be better off with examinations three or four times a year. You would not want to burden a good bank on account of the faults of another.

Senator SHAFROTH. In the banks in England, no examination whatever is required.

Mr. MARSHALL. That may be true; but we are different.

Senator SHAFROTH. Oh, I think that is a wrong principle.

The CHAIRMAN. Our system is very different from theirs.

Senator REED. My idea is that the author of that provision in the bill undoubtedly thought that one examiner should be a check upon another.

Mr. MARSHALL. Yes.

Senator REED. That apparently is a good idea.

The CHAIRMAN. Yes; of course.

Senator REED. But it would be better to provide for an examiner in chief who might at stated intervals, or at such times as he saw fit, drop in and make an independent examination.

Mr. MARSHALL. Well, the Comptroller of the Treasury is the examiner in chief.

Senator REED. But he does not go out to the different banks.

Mr. MARSHALL. No.

Senator REED. But if there was an examiner in chief, too, he would simply drop around occasionally and look over the work of these examiners.

Mr. MARSHALL. That is exactly what is being done now.

Senator REED. I suppose so.

Mr. MARSHALL. These examiners are being switched from place to place; but the idea of this bill seems to be that no one examiner should examine a bank a second time.

Senator BRISTOW. That would be a great weakness.

Senator REED. A bank examiner might get his mind on a certain class of paper. He might begin to suspect it, but not have sufficient ground to reject it.

Mr. MARSHALL. I speak from experience. I was a bank examiner at one time. I knew more about a bank at the end of three years as an examiner than I did the first year.

Senator SHAFROTH. You got familiar with some of the paper then?

Mr. MARSHALL. Yes; and with the bankers themselves.

Senator BRISTOW. Yes; with the bankers; it is also a personal matter.

Mr. MARSHALL. And my idea of that is to put the responsibility on the comptroller, and to put the examiners under him, as they are now, and make him responsible for his work. The more responsibility you put on him the better it would be done.

The CHAIRMAN. Have you any other points which you wish to submit, Mr. Marshall?

Mr. MARSHALL. Yes. Section 25 relating to transfer of stock. On page 43 it says:

> The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations shall be liable to the same extent as if they had made no such transfer.

I would change that provision to apply not to the stockholder, but to any officer or director. We have got many stockholders that know nothing about the management of the bank, and they should not be liable for the criminal acts or mismanagement of the officers or directors, except as they are liable for their double assessment in case of failure. If you were a stockholder in some bank you might be away a great deal and know nothing about what was going on. There are many women up in New England who are stockholders, and if a bank failed and a woman happens to sell her stock 30 or 60 days before the bank fails, by this provision she is made liable just the same.

Senator REED. It seems to me that when you fix the 60-day limit you do not reach the real evil, because the man who knows that the bank it going to fail and wants to escape his liability might know it 60 days or 6 months or a year before it failed. It seems that something should be inserted that would cover that point, such as—

> every stockholder who transfers his stock, with knowledge of the insolvency or impending insolvency of the bank, or any knowledge of facts sufficient to put him upon inquiry or notice, be held liable.

Mr. MARSHALL. Yes.

The CHAIRMAN. That is much better, I think.

Senator SHAFROTH. Do you not think that in addition to such a provision there ought to be that fixed limit?

Senator REED. I would not put in any limit at all, but only actual knowledge of the failing condition of the bank.

The CHAIRMAN. That is the important point.

Senator SHAFROTH. But if you do not have any limit you might go back to a director or stockholder within six years.

Senator REED. But if he transferred with knowledge of the bank's failing condition, he ought to be held. I will give an illustration: There is a bank in my State that I think for five years was absolutely insolvent. The president I believe—well, I believe it was not the president but the cashier—knew that there was a very large amount of paper that had been forged. The paper would have been good if it had been signed by the man whose name it bore; but it was forged paper which was carried along there on a note from time to time. Now, a man who knew that condition never ought to be able to escape liability for his stock. Probably he would be liable on another ground than as a mere stockholder.

Senator SHAFROTH. If he sold his stock, the person to whom he sold it would have a right of action against him for false pretenses.

Senator REED. But I am speaking about his being liable to a stockholder upon another ground than stock ownership. Because a man who runs any bank, and has actual knowledge of fraud of that kind being perpetrated, if I put my money in it, there ought to be a liability on him absolutely unlimited.

The CHAIRMAN. I suppose you refer to the Shafer case?

Senator REED. Yes.

The CHAIRMAN. Is there any other point you wish to submit, Mr. Marshall?

Mr. MARSHALL. Yes. Section 26, relating to farm loans. Now, suppose that a trust company or State bank comes into this system. They loan money. Would this 12 months' limit apply to trust companies and State banks?

Senator BRISTOW. It would have to apply to all the banks that come in.

The CHAIRMAN. But these banks have different policies; one is a commercial bank and the other is an investment bank. I think there ought to be a distinction between them, not to compel them all to come under the same rule. Take a savings bank; they make a large part of their investments in real estate.

Senator BRISTOW. Before we leave that I would like to suggest——

Mr. MARSHALL. Will you please let me finish this point? I would not have a separate capital for the commercial and the savings departments, but would have a regular savings department with proper books, and provide safe investments for savings funds; and the reports should clearly state the amount of savings deposits and the amount of investments carried for account of savings; but one capital should be liable for all deposits, both commercial and savings alike. I think it would be complicated otherwise. This bill provides for a certain amount of capital. It says that it shall not be less than $25,000. Well, there are several national banks, small ones, with $25,000 capital; and they might desire to start a savings department, but it would not justify them with a capital of $25,000.

The CHAIRMAN. Of course, that is right; they are carrying on savings departments now on the time-certificate plan.

Mr. MARSHALL. Yes; that is better.

Senator BRISTOW. I should like to take up that matter in connection with these farm loans. I asked yesterday why a real estate mortgage should not be made the basis for this currency and why it is not preferable and more desirable than the short-time paper; and you suggested that the difficulty was that there was no established market for a security of that kind like there was for bonds. Is there not just as much of a market for real estate mortgages as there is for commercial paper?

Mr. MARSHALL. Oh, no.

Senator BRISTOW. There is not?

The CHAIRMAN. Might I interpose a statement here?

Senator BRISTOW. Certainly

The CHAIRMAN. Mr. Festus J. Wade, of the Mercantile Trust Co. of St. Louis, established a market for farm loans, by wide advertisement among the people themselves, so that he actually made those farm mortgages a liquid asset; and right in the middle of the recent panic he was selling farm mortgages at 6 per cent. When money was

easy he was selling them on a 5 per cent basis. But he was able to collect money right in the middle of the panic upon farm mortgages, owing to the fact that he had, by himself, through that institution, established a market for farm mortgages. I think that answers your question. Of course there is no market for them now, except as built up by some individual.

Senator REED. There might be some market for them if we had some means of cashing them.

The CHAIRMAN. Certainly.

Mr. MARSHALL. My idea is that back of this currency there is a security that is going to be paid, and therefore retire the currency.

Senator BRISTOW. That is a beautiful theory. But as a matter of fact the banks of the country with which I have a very slight familiarity—while their short-time paper is the only kind of paper they do carry, as a matter of fact it is not paid any more than a farm mortgage is paid. They are carried along from year to year. I have renewed notes over five times. The banker would know that it would ultimately be paid.

Senator REED. You run a newspaper, do you not? [Laughter.]

Senator BRISTOW. Now, that is a way the majority of the newspaper men do.

Mr. MARSHALL. I know that.

Senator BRISTOW. And it will not be paid.

Mr. MARSHALL. Well, suppose that your bank at Salina discounts John Smith's plain note. John Smith is a farmer breeding cattle. His note is as good as gold.

Senator BRISTOW. Yes.

Mr. MARSHALL. Now, that note—I do not know whether it would be under the bill—it says paper, "issued for agricultural purposes," whether the money is used for or is going to be used for that purpose or not.

Senator BRISTOW. The point I am making about the discrimination against farm mortgages is that John Smith is a farmer at Salina in the example you mentioned; and a banker can take his note, due in 90 days, and make it the basis of this currency. Now, if John Smith did not have a farm his note might not be worth anything.

Mr. MARSHALL. Yes.

Senator BRISTOW. And yet a mortgage on his farm is barred by the bill.

Mr. MARSHALL. Yes. But the argument against that is that it is not a liquid security for payment.

Senator REED. You mean that it does not come due quickly?

Mr. MARSHALL. Yes; it does not come due quickly.

Senator REED. Then, the evil does not reside in the fact that it has got a security back of it of a certain character, but in the circumstance that it does not become due soon enough. Is not that the real objection, instead of the fact——

Mr. MARSHALL (interposing). It does not come due, and, as I said, it is not liquid. That is no reflection on the security.

Senator REED. Well, I would like to have somebody define to me what is meant by a security being "liquid." If "liquid" means that a note is a good note, and it is coming due in 30 or 60 or 90 days, or a shorter time—if that constitutes being a liquid security, I know what you mean; if it means anything else, I would like to know what it does mean.

Mr. MARSHALL. Well, as you say, it runs a year sometimes.

Senator REED. But I am trying to get you to tell me what you mean by "liquid," if it does not mean what I have said.

Mr. MARSHALL. A security that will be reduced to cash—be paid.

Senator REED. Well, I am speaking of a note of 30 or 60 or 90 days, a note the maker of which can be compelled to pay it. Does that constitute a liquid note?

Mr. MARSHALL. Not compelled; that means at the end of six months or a year—through a court.

Senator REED. I mean the maker is good, and if you demand your money you can get it.

Mr. MARSHALL. If you demand your money you can get it; and the purpose is to pay it at maturity; the purpose of the borrower and the holder of the note is to cash the note at maturity.

Senator REED. If the Senator will pardon me another question: Now, as a matter of fact, banks have a line of credit which constitutes a large part of their business with regular customers that they carry from year to year, renewing the notes every 30, 60, or 90 days—do they not?

Mr. MARSHALL. Oh, certainly.

Senator REED. Now, would you exclude that character of note?

Mr. MARSHALL. So far as that is concerned, that is a note that is given for the purpose—that is practically going to be renewed, and you know it—why, I would exclude it. I would make a great distinction between security that is to be put up between the note issue, and the security or note, if you are going to discount it for the bank for the purpose of taking care of his customers.

Senator REED. That is what I am getting at. Here is a large mercantile concern in a city. It goes down to the bank and arranges for a line of credit. It proposes to open its account and says, "How much of a line of account will you extend to me?" The banker says, "Up to $200,000." Now, he borrows that. Sometimes he is up to $200,000; sometimes he is down to $10,000 or $15,000; but as a matter of fact he is probably owing the bank something all the time. Would you exclude that class of paper?

Mr. MARSHALL. Not if he was a good substantial customer.

Senator REED. Well, if, as a matter of fact, he borrows $200,000 and was entitled to a credit of $200,000; he borrowed $100,000 and ran along just at that amount; would you exclude that paper?

Mr. MARSHALL. Do you mean that he is a continuous borrower?

Senator REED. Yes. He generally owes that bank $100,000, renewing his notes from month to month, but at any time the bank said to him "Pay," he would get the money in there in a very short time. Would you exclude that?

Mr. MARSHALL. If he is good I would not.

Senator REED. Well, I want to know now in the name of the Lord God of Israel—and I do not say it in any irreverent sense—whether you are going to exclude that class of paper in the practical operation of this law?

Mr. MARSHALL. Well, as I said a while ago, I would make a difference in the paper that I take as security for a note issue and the paper that I discount as a paper for its general use.

Senator REED. I understand that your distinction is that you want liquid paper on the one hand and would accept nothing else, while on

the other hand you would accept other paper; but when you come to really decide whether a paper is liquid paper or not, by what rule will you decide and by what yardstick will you measure it?

Mr. MARSHALL. In the first place, if you have a note that is good—what we call commercial paper, that we defined yesterday—paper based on cotton, we will say, in the course of shipment, with a draft at 30 or 60 or 90 days, that is strictly prime paper, and I would put just as much of that kind of paper behind a note issue as I said.

Senator REED. You say a note with a draft. Do you mean an acceptance?

Mr. MARSHALL. Yes; I mean an acceptance.

Senator REED. Now, I want to ask you what proportion of the commercial business of this country is carried on through acceptances? Is it not the fact that the acceptance has almost gone out of date?

Mr. MARSHALL. Well, the acceptance has, so far as that is concerned. There are, however, a good many acceptances while the cotton is on the way to Liverpool.

Senator REED. Well, there may be some foreign acceptances; but now, getting down to the real situation in this country—but is it not a fact that the aggregate of all the acceptances in this country would not begin to furnish enough securities to issue money against?

Mr. MARSHALL. Certainly.

Senator REED. Now, that is what you call prime commercial paper. That is one call. What else?

Mr. MARSHALL. I told you last night. You spoke of a certain line of paper. Take your wholesale merchant, who buys his goods and gives his note to the manufacturer, and the manufacturer discounts it. Those are what we call commercial paper. That class of paper is not used much more, because the creditor who borrows through his bank and the commercial broker and gives his paper direct and pays and takes his discount, and so on.

Senator REED. I am through with my line of questioning, Senator Bristow; I beg your pardon for the interruption.

Senator BRISTOW. As to commercial paper I will give an illustration. We will take Woodward & Lothrop, or John Wanamaker, or Armour & Co. These merchants, as I understand, keep out a large amount of paper. Say it is 90-day paper of Woodward & Lothrop's. The broker settles that. That will be paid; but it is paid by the sale of another note.

Mr. MARSHALL. Quite often. Not always.

Senator BRISTOW. Not always, but frequently. And he keeps so much of that afloat all the time.

Mr. MARSHALL. Certainly; no question about that.

Senator BRISTOW. Well, why should that be given any different consideration from the merchant at home, in a small way, who renews his notes every 90 days? It is a part of his capital, is it not?

Mr. MARSHALL. But if your bank at Salina buys John Wannamaker's note through a broker he is absolutely free from all obligations to John Wannamaker to renew. He buys that note. When it comes due he sends it to the place where it is payable, and he gets his money, and it is reduced, so far as he is concerned, to money.

Senator BRISTOW. Now, when you take the 90-day notes or 60-day notes that are held by any bank—I do not know much about these city banks, but take a country bank—and most of the banks

are country banks—and there is not a bank in the United States that could compel payment of those 90-day notes without disaster.

Mr. MARSHALL. Do you mean all at once?

Senator BRISTOW. All at once—when they become due. There is not a bank in the United States that could do it.

Mr. MARSHALL. Do you mean compel them all at once? That is not a condition ever heard of. If all depositors, for instance, should demand payment at once it would produce a very serious situation.

Senator BRISTOW. Why is not the mortgage on the farm, on the land itself, which is the basis of the prosperity of this country anyway, conservatively made, the best security in the world?

Mr. MARSHALL. Senator, I have seen the time when it was about the poorest—in 1893, when I was a banker in Kansas City, and one of these farm-mortgage concerns, which was taking mortgages and selling them, broke, and we had to take quite a number of its mortgages as security.

Senator SHAFROTH. That was the Lombard Investment Co.

Mr. MARSHALL. I had 14 of them on land in your State, and some of them not so far from you. Those mortgage descriptions read fine—fenced, barn, house, etc.—and not one of them had the improvements they said they had, and those mortgages were on 80 to 320 acres, and loans run from $300 to $500 apiece. I got a lawyer at St. John, Kans., to go out and run down a lot of those pieces of land and fix up the titles, and see where they got to, and when I got through they were not worth over $1 an acre, and they could not be sold.

Senator REED. Mr. Marshall, you furnished an illustration of the badness——

Mr. MARSHALL. Of what?

Senator REED. The badness of farm loans by citing a splendid, barefaced fraud, a parallel of which would be to say that a lot of rascals got together and organized a fake corporation and put in a lot of paper that had nothing back of it, probably part of it forged, and put it into the channels of commerce for the purpose of imposing upon somebody. You would not want commercial paper condemned because of that, and I do not think your illustration, with all due respect, about farm loans is any more fair. We all know what the Lombard Investment Co. was.

Mr. MARSHALL. I was speaking not as a whole. Nobody has a higher regard for farm mortgages than I have, and the day I was speaking of is past. That was when the country was settling up and everything was new. It is quite different there now.

Senator REED. Maybe you have heard of some gentlemen who laid out some lots that were 50 by 140, and had a nice map of them, and they mortgaged them, and they had perfect titles, and then it was discovered that the lots were 50 inches wide and 140 inches deep; but we hardly take that as an illustration.

Mr. MARSHALL. Senator, it was far from my purpose to give that as an illustration to base farm mortgages on generally.

Senator REED. Certainly; I thought so.

Mr. MARSHALL. I have taken plenty of farm mortgages, and I have great confidence in them, and I was just speaking of that isolated instance.

The CHAIRMAN. There is no doubt about it that the Lombard Investment Co., with the gigantic fraud that was behind it, which

Senator Reed points out, as we all know, did have a very bad effect on the country at large.

Senator BRISTOW. How many merchants were there in 1893 who were in financial straits?

Mr. MARSHALL. There were many.

Senator BRISTOW. What was their paper worth?

Mr. MARSHALL. It might also be asked, What were many banks worth?

Senator BRISTOW. Take the banks that failed, what were they worth?

Mr. MARSHALL. That in 1893 not only the farm but practically the rest of the country was broke.

Senator BRISTOW. Everybody was broke. We can look back and recall farms which you could not get $1 an acre for, but if the man gets the mortgage or took the farm, there is not one in all that western country who kept it who did not make money.

Mr. MARSHALL. Certainly. I wish I had kept them all.

Senator BRISTOW. Yes, if you had kept them all——

Mr. MARSHALL. But those were extreme conditions.

Senator REED. If you had kept them you would have had enough money to start a country newspaper and come to the Senate.

Mr. MARSHALL. We were all broke, because we were selling $1.50 hogs, and $1 and $2 cattle, and burning corn for fuel.

Senator REED. What was the trouble with prime commercial paper in those days?

Mr. MARSHALL. Those were extreme times, and it is not a fair comparison.

The CHAIRMAN. I will remind the witness that he will miss his train.

Senator BRISTOW. Just one more question. Only as a rule—there are exceptions, but, as a rule, the only security that did come back in the end was good farms, was it not?

Mr. MARSHALL. Well, I think some of the merchants and banks that were shaky at that time got well.

Senator BRISTOW. Many of them went into bankruptcy.

Mr. MARSHALL. Many of them that were sick got well.

Senator BRISTOW. But all the farms got well.

Mr. MARSHALL. Many of them got well; yes; I should say so; I agree with you there.

Senator REED. That could be accomplished if the man who had the farm could have lived without anything to eat.

Senator BRISTOW. They could find something to eat and get a little sorghum to sweeten the bread.

Mr. MARSHALL. It is no reflection on the farm-mortgage security, because as a class of security it is probably the best, or among the best, that we have.

Senator BRISTOW. You have six minutes yet.

Senator REED. He can not catch his train unless he goes.

Mr. MARSHALL. I have a conveyance down there waiting for me and I can catch the train all right.

Senator BRISTOW. The Government issues this currency and loans it to the banks and the banks put up the security and the currency is returned. The banks, as far as the Government is concerned, do not have to return that money and it is not intended that they shall

return that money until the community can conveniently meet their obligations?

Mr. MARSHALL. That is right.

Senator BRISTOW. Why is it necessary to have short-time paper, making it possible to force the community to return the money until they can conveniently?

Mr. MARSHALL. As far as that is concerned, that is just why I injected that, that I would take the assets of the Federal reserve bank as collateral, and other bonds. When you go to issuing money, I say, take all the security you can get.

Senator SHAFROTH. Mr. Marshall, do you think there is enough prime commercial paper that could be used for the purpose of depositing in the reserve banks that would take the place of the $750,000,000 of bank currency?

Mr. MARSHALL. No, sir.

Senator SHAFROTH. Do you think it would be more commercial paper than would be in existence?

Mr. MARSHALL. Well, I do not know as to totals; but, on the other hand, Senator, I would not indorse putting out a permanent asset currency. I believe that to be asset currency, if you please, but it would simply be a short time—emergency—currency to meet the emergency and to get it back in and cancel it just as quickly as conditions would justify.

Senator SHAFROTH. Would it not require enormous machinery on the part of the reserve bank to handle $750,000,000 of commercial paper?

Mr. MARSHALL. Certainly.

Senator SHAFROTH. Maturing at from 30 to 60 and 90 days?

Mr. MARSHALL. Certainly it would, and especially if you undertook to make it permanent.

Senator REED. I am very sorry you have to go.

The CHAIRMAN. I will ask the committee now to give Mr. Dos Passos a few minutes to be heard.

STATEMENT OF JOHN R. DOS PASSOS, OF NEW YORK, N. Y.

Mr. DOS PASSOS. I will take only about 10 minutes.

The CHAIRMAN. I want you to give your name and address to the stenographer.

Mr. DOS PASSOS. My name is John R. Dos Passos, and my residence is New York City. I have some thoughts on these questions, and I have put them in print to save you gentlemen's time.

Senator REED. Before you begin, will you make a statement as to who you are? Not for our enlightenment, but for the enlightenment of those who want to read your statement.

Mr. DOS PASSOS. With becoming modesty, I wish to announce myself as a gentleman who has had to do with Wall Street for 35 years. I am the author of the work on Stockbrokers and Stock Exchanges, but I am before this committee in a perfectly independent character, representing nobody but myself, and nobody is responsible for my thoughts.

Senator REED. What has been your experience in financial matters, in a broad way?

Mr. Dos Passos. Everything; I have been connected with all kinds of trusts, and I have been connected with all kinds of corporations for 35 years in Wall Street.

Senator Reed. As a capitalist and investor?

Mr. Dos Passos. No, as a lawyer, representing capital and investments. The last retainer I had was from a French syndicate, which built a road out in the State of Oklahoma.

The Chairman. He refers to the Missouri, Oklahoma & Gulf, which was financed by a French syndicate represented by Mr. Dos Passos.

Mr. Dos Passos. What I wanted to do was not to take your time now, but if after you have read the pamphlet if you think it is of sufficient importance to read the little pamphlet I have printed here, I shall be very glad to obey the call of the committee and to appear especially on questions that you have discussed here this morning about the farm mortgages. I have studied that question thoroughly, and I think possibly I might give you some enlightenment in regard to that—views that perhaps may not have occurred to outside people.

You have here, in the fourteenth section, under the head of "Rediscounts," this language:

* * * but such definition shall not include notes or bills issued or drawn for the purpose of carrying on or trading in stocks, bonds, or other investment securities. * * *

Senator Shafroth. What page is that?

Mr. Dos Passos. That is under the heading "Rediscounts," I have it on page 120 of this book here.

Senator Pomerene. That is the Glass report, I think.

The Chairman. That is the report of the House, page 120. It is section 14 of the bill and page 24.

Mr. Dos Passos. This language that I have read here—

* * * but such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks, banks, or other investment securities, * * *

What does that mean? The aim of the author of that language, I assume, is to exclude banks from lending on securities of the stock exchange, but it is very ambiguous and will give rise to enormous discussion, both among the lawyers and everybody else who read this passage. If you want to exclude or prevent or prohibit the banks formed under this law from loaning money on securities dealt in on the stock exchange, I think you had better say so plainly. I am in favor of that to a certain extent, and yet I am supposed to represent Wall Street interests. I believe to-day if you pass a law by which the stock exchange would be excluded from participating in the proceeds of banks you would do something for the benefit of the stock exchange and you would not have to legislate in regard to currency at all.

Senator Reed. How would it benefit the stock exchange?

Mr. Dos Passos. The stock exchange would not be required to borrow money, but do as they do in London and Paris.

The Chairman. Bimonthly?

Mr. Dos Passos. Bimonthly; and if they did that the whole business of currency and rates of interest would be settled, and you would never hear of tightness of money. Where does that all come from, this tightness of money? You have not gone into that aspect of the matter.

Senator POMERENE. You mean "tightness" of money as it has to do with operations in Wall Street?

Mr. DOS PASSOS. Everything; that is when interest goes up to 100 or 200 or 300 or 500 per cent, which is a thing absolutely unheard of in London and in Paris.

Senator REED. You do not expect to cover such a subject as that in 10 minutes?

Mr. DOS PASSOS. No.

The CHAIRMAN. When could you return, Mr. Dos Passos?

Mr. DOS PASSOS. I will come here Friday. Would that suit you?

Senator SHAFROTH. He had better come Monday.

Senator POMERENE. I suggest that we wire him when he shall come.

Mr. DOS PASSOS. I am going to sail for Europe on the 24th of this month, and, of course, I would not be able to get here next week, but I can come back here on Friday and I shall do it with great pleasure.

Senator SHAFROTH. I think that is all right.

The CHAIRMAN. Will it suit the convenience of the committee to hear him on Friday?

Senator SHAFROTH. I think so.

Mr. DOS PASSOS. I will leave a number of copies of this article of mine, which will open up the subject to you, so that you will be able to examine me with a great deal more skill.

The CHAIRMAN. Very well.

Mr. DOS PASSOS. I am obliged to you for allowing me to intervene for a moment.

(The document filed with the committee by Mr. Dos Passos follows:)

THE RELATION OF THE STOCK EXCHANGES TO THE CURRENCY QUESTION.

[By John R. Dos Passos, of New York City.]

The pith of the President's views on currency reform is contained in these words in the message which he personally read to Congress:

"Our banking laws * * * must not permit the concentration anywhere in a few hands of the monetary resources of the country or their use for speculative purposes in such volume as to hinder or impede or stand in the way of other more legitimate, more fruitful uses."

Without questioning the general necessity of a new system for banking and currency, and without criticising the remedies or language of the new measure introduced in Congress by the distinguished chairmen of the Senate and of the House of Representatives, Messrs. Owen of Oklahoma and Glass of Virginia, I venture to suggest a method by which "the concentration * * * in a few hands of the money resources of the country or their use for speculative purposes" will be prevented most effectually and which will not interfere with the reforms sought to be accomplished by the above or any other measures finally adopted.

I believe that the first step toward true banking reform would be to divorce the transactions of the stock exchange from the banks—to prevent brokers from using the money of these institutions in speculative adventures. The operations of the exchange as now conducted require the banks of New York to furnish a vast sum of money to facilitate the business of its members. When one gives an order, for example, to purchase, say, 5,000 shares of New York Central Railroad stock in the stock exchange it involves the raising of, say, about $500,000, of which the customers' ordinary margin contributes 10 per cent, $50,000, and 10 per cent, $50,000, is furnished out of the capital of the stock broker, making $100,000. As the broker must pay for the stock on the following day he is required to go into the money market and borrow $400,000 by the pledge of the 5,000 shares of stock bought. Now, as 85 per cent of the transactions of the exchange are speculative, in the case put $400,000 is furnished by the banks to aid a purely speculative venture. And as one can very readily perceive, if 1,000,000 shares of stock are dealt with in a day, which has been a common occurrence, the aggregate sum of money drawn out of the banks would be simply colossal.

Of course, this money is placed back again in the banks to be used in some other speculative deal, but the fact remains that hundreds of millions of dollars of banking funds are daily employed by the stock brokers for the facilitation of purely speculative transactions. This system is wholly unnecessary and useless. It should be eliminated. The operator who buys for speculation 1,000 shares of stock never sees the certificates of stock, never wants to see them, and is interested only in the rise and fall of the market. He is playing for a profit. The borrowing of money and the financing of the transaction are entirely with the stock broker who performs the operation, and the customer or speculator never sees or handles the securities in which he is trading. In addition to this misuse of banking funds, that ought to be at the disposal of the industrial and commercial community, the system of actually financing each transaction is a great hardship upon the corporations. Each corporation whose stock is actively dealt in is subjected to enormous expense and inconvenience by being compelled to furnish and issue fresh certificates of stock each day.

The corporations to effectuate these useless transfers are compelled to have engraved and on hand thousands of certificates by which transfers can be quickly made on their books; they are compelled to furnish gratis these engraved certificates which cost very large sums of money and in the course of the day when the operations in a particular stock are very large, and the transfers upon the books continuous, the corporations are compelled to employ clerks to do the work, or trust companies and transfer agents to facilitate deliveries and to attest the regularity of the transfers and the forms of the new certificates. There is no spectacle of Wall Street so ludicrous as to behold the messengers running around with certificates of stock, demanding large checks which are duly certified to close these purely speculative transactions. This ridiculous and unnecessary process goes on day after day and these huge sums of money are drawn out of the banks when the funds should be held to meet the legitimate business transactions. The exchange should be compelled to make bimonthly settlements as is the practice in London and in Paris, and to close the transactions by the payment of differences, or delivery of securities, as the parties require. The New York Stock Exchange is no better than the two bodies just mentioned. If it does not take the initiative in this respect it should be compelled by law to do so. The benefits which would arise from bimonthly settlements are these: First, the funds of the banks would not be used daily for the speculative purposes of the stock exchange; second, high and fluctuating rates of interest would never prevail. Such a situation as interest at the rate of 50 per cent, 100 per cent, or 300 per cent, or 400 per cent is never witnessed in Paris or London, simply because stock exchange transactions are settled by the payment of differences through bimonthly settlements. The transactions of the exchanges are entirely segregated from regular legitimate banking operations. The operations as there conducted are either for the "account" or for "money," which means "cash." One can always buy for cash and have quick delivery of any stock required. But these transactions are rare—the bulk of the business is for the "account" to be settled bimonthly by deliveries or the payment of differences; third, the corporation would be relieved of the enormous burden of labor and expense now involved in the daily transfers of certificates of stock; fourth, the brokers would be relieved from borrowing vast sums of money and of becoming the victim of banks and bankers; besides, their business could be conducted with less capital and in greater dimensions.

It will be said by some brokers who have not studied these questions that they can not adopt the English method in this country because they can not protect themselves against loss. That reply is absolutely unfounded and inadequate. Their business can be carried on precisely as it is in London and it can be arranged by the exaction of margins so that the stockbrokers in making transactions will suffer no further loss or incur greater contingencies than those which are applicable to any speculative business.

In private I have always contended that the money of the country should not be tied up in stock-exchange transactions. Why the stock exchange has not taken the initiative for this reform I can not understand. Fortunately, I am not solitary in these views. One of the most experienced and intelligent financial leaders of this country, Mr. William A. Nash, who is now chairman of the board of the Corn Exchange Bank, in an address before the subcommittee of the Committee on Banking and Currency, in the House of Representatives, January 16, 1913, uses this significant language:

"But financial history shows that panics and crises do arrive, and probably will during all time. That those convulsions are more violent in our own country in contradistinction to other nations may be attributed principally to the cash basis of most of our transactions. Especially on our stock exchanges the demand money feature causes violent fluctuations in rates which the foreign exchanges are free from owing to their plan of semimonthly settlement which places all their loans practically on time,

while with us we have a demand and cash basis; and it is the activity of the demand for money and not the scarcity of money that creates the fluctuations in rates with which we are so familiar."

And now I wish to say a word about the history and progress of this important body. The stock exchange as an institution and its members—the stock brokers—have within the past year been the subject of much criticism. The comments upon Wall Street generally have been conspicuously bitter, and many of these attacks were so besprinkled with ignorance, prejudice, or passion that the real and legitimate purposes of the exchange have been disregarded. All of the evils growing out of the existence of the stock exchange have been most vividly depicted, but the benefits of this great institution have been more or less suppressed or misunderstood. Let us look at both sides of the picture. A stock exchange was coeval with Anglo-Saxon finance. Previous to the creation of the Bank of England in 1694, public stocks and what we now designate under the general name of "securities" were practically unknown in England, but at this epoch that country, having been fully relieved from the fetters of the feudal system, began to blossom out into a new national career of commercial and industrial life—and we have before us the wonderful and successful history which she has since made. Instead of meeting public expenditures for the Army and Navy, for the civil service, or for public works or improvements, by levying and collecting direct assessments, the Nation began to borrow money by means of public stock or State obligations which were issued at a fixed rate of interest and which were to be repaid out of the governmental revenues.

As these and other public loans were subscribed for by a large number of individuals, their ultimate success depended upon the stockbrokers, who began to act as "go-betweens" and who, in due course of time, after many migrations from one quarter to another in London, finally, about 1698, located in Capel Court, which became the central and fixed point of dealing in all kinds of securities, and the brokers became licensed operators. It was necessary that these intermediaries should act in accord as to price and other details in the distribution to the public of these securities, and the London Stock Exchange became the factor in this important work. It is an indisputable fact that all the great public improvements and utilities in this and other countries have been directly or indirectly financed through stock exchanges. Shares of stock, as they are called, in the sense of negotiability, are only one degree removed from bank notes and gold or silver currency, and they must be so handled or manipulated that they can be quickly transferred from hand to hand without the ceremonies and delays incident to other legal instruments, such as deeds and mortgages. An intermediary between the creator of securities and the public has grown to be an absolute necessity, and without it the successful negotiation of securities could not be made. A stock exchange, therefore, is just as much a necessity to the Government as it is to private corporations and individuals, for while in the first instance a Government may sell its issues directly to purchasers when the time comes, as it inevitably does, for the purchasers to dispose of their holdings, they must have some place where they can do so safely and promptly. Few persons buy securities with the fixed purpose of holding them until they mature, and a market in which they can dispose of them is a necessary element of their negotiation. A public, recognised, established mart is a sine qua non to the merchants, as well as to the financiers or brokers; in fact, Government and corporation securities could not be negotiated if there were not a place where they could be speedily converted into cash. A stock exchange, among others, accomplishes two purposes: First, it furnishes the place where continuous buying and selling of securities prevails and where uniform rules of dealing are maintained, and, second, the brokers themselves constitute a large class of temporary purchasers, who are ready to deal in all kinds of State or corporate obligations and who afterwards, so to speak, send them adrift through hundreds of channels and rivulets to professional speculators or investors. It has truthfully been said that the real-estate broker has largely contributed to the building up of New York, but the sphere of his operation has been immeasurably less in scope and importance than that of the stockbroker. The railroad map of this country attests, the large cities illustrate, and the colossal public improvements exhibit his wonderful work. This marvelous record has all been accomplished by the sale of railroad, governmental, municipal, and corporate securities, which have been placed in the hands of hundreds of thousands of investors in this country and all over the world through the agency of the stock exchange. If, instead of one fixed and recognized place for dealing in securities, there were many, acting under different methods of business, the wildest confusion in price and terms would prevail.

In view of the magnitude of public and commercial operations and the stupendous amount of capital required to finance them, a stock exchange is to-day more important than ever it has been in the history of the world. The New York Stock Exchange

has in round numbers 1,100 members. That body can absorb and distribute millions of dollars' worth of securities each day. The brokers act as distributors and they also constitute a financial breakwater, for the predominating speculative element in the exchange renders it always possible to deal in large or small quantities of bonds and stock for cash. It is cause for depreciation therefore, that the stock brokers' side of this great question has heretofore not been more boldly presented and more strongly elaborated, instead of in a sort of apologetic, defensive manner, as if the occupation needed explanation and excuse—as if his business were furtive. No doubt there have been thieves among stock brokers, as there have been thieves in churches, but in balancing the good and evil to the community of this institution, the former preponderates, and while we might wish that the speculative transactions could be curtailed, and that the pure gambling which is often witnessed, with its consequent evils, could be abated, the necessity for the exchange is predominating, and he who would stop its operations, or diminish its efficiency, is either utterly reckless of the future of the country, or ignorant of the greatest factor in its development.

That evils are connected with the operations in the stock exchange is undeniable. The point is whether many of these can not be remedied, and whether the time has not arrived when the method of doing business in the exchange must not be radically changed. The prominent evils are over speculations and reckless trading; frauds perpetrated upon a customer by individual brokers; besides the operations of cliques of wealthy men who control particular corporations and who with the knowledge of their inside working manipulate the securities in such a way that it becomes almost impossible for the average operator in or outside of the exchange to make money by his intelligence or knowledge—or in fact to have a fair deal. All of these evils have become accentuated in the last decade and they ought to be corrected, not by a multitude of penal laws but by the exchange itself. Short sales become so reckless at times that they should be curtailed. They can not entirely be abolished, but when they are openly and brazenly made the stock exchange should instantly reduce their proportions. I have neither time nor space to go into the details of a remedy for this shameful practice, but one can be easily devised. I must, however, suggest that the specialist with his hands full of "stop orders" should be abolished. No one or two men should be allowed, by appointment or custom, to monopolize the dealing in any particular securities. This practice places the orders for purchase and sale in the hands of one individual and enables him consciously or unconsciously to make prices and shape the course of speculation. With half a dozen "stop orders," as they are called, in his hands at one time the specialist becomes the absolute master of the particular stock in which he deals. I make no charge against the specialist either of carelessness or dishonesty. I only assert that the method is a most dangerous one, and I contend that he should be summarily extinguished and with his extirpation the practice of "stop orders" would soon disappear.

The brokers say that "stop orders" are necessary for their protection. My reply is simple and brief: They must find some other way to protect themselves. They enjoy an extraordinary franchise both from the Federal and State Government as brokers without the payment of license fees, and they should not employ business methods which result in such dreadful losses not only to individual customers but to the whole body of speculators and innocent investors. If the brokers should say that the "stop order" is in the interest of the customer, the answer is equally clear that unless the customer can find some better method of limiting his loss in his speculative operations he must desist from them. It is overlooked that the real investor is entitled to protection as well as the stockbroker and speculator. If in giving a "stop order" a stock speculator were injuring himself only then the community might be indifferent to his speculations, but the execution of one stop order for never so small a quantity in the hands of a specialist of shares establishes a price which affects all persons interested in that particular stock. Like a ten-pin ball, it strikes all along the line, and in a feverish market it generally occasions enormous losses to innocent operators and sometimes a panic—and a panic because one individual dealing in 100 shares has chosen to set a price at which he imperatively commands a sale of a particular stock and if not at the price named, at a lower price, and like the cry of fire in a crowded building confusion and panic are instantly created.

Then it is charged, and with more than a modicum of truth, that frauds may be and are committed by brokers as against their customers. But there is full redress for such acts—one in the courts and the other in the exchange itself. I have had an experience covering many years and I am bound to say that in general the redress is equal to the wrong in either tribunal. The courts and juries favor the customer. Besides, one who asserts that he has been wronged may, in general, place his claim before the stock exchange and as a rule he will find quick and proper redress. It is true that there are a few stupid and ignorant men in the governing committee, but in

my humble judgment a more equitable body does not exist. It is, par excellence, the tribunal to which resort should be had when a customer feels he is injured—it is cheap and prompt and the judges are experts.

It has been suggested that the remedy for many evils is in the incorporation of the exchange. In my judgment it is not only unnecessary but it would be detrimental to the interest of the public. The stock exchange should always have the first and final right of saying who should be of its members. The occupation of a stockbroker is one of peculiar delicacy and importance and I am glad to say that the esprit de corps has been well maintained. The exchange should be allowed the unlimited privileges of saying "yes" or "no" to an applicant without public interference. The incorporation of the exchange puts it under the domination of a general statute and it could not make any fundamental alterations in its regulations without special legislation. The necessities of commerce can not wait upon such slow and uncertain methods. Moreover, the exchange would have to be incorporated under a general law, which would invite into this important field classes of adventurers and speculators who would cause the real objects of the exchange to be disregarded, to the immeasurable loss of the public. A multitude of exchanges would at once spring up like mushrooms. Which would be the proper organization? The creation of different exchanges would inevitably work confusion as to price and terms, the uniformity of which is one of the main purposes of its creation. To be efficacious there can be only one great central mart for the sale and purchase of securities—there must be a responsible body creating one standard of values—not only that, but to exercise a controlling voice as to the form, language, and conditions of negotiable instruments. The press is the best censor for this body and although at times the criticisms are harsh and often unjust, the exchange can survive them when it knows that investigation will show that its inward management is correct and fair.

Besides, the courts exercise jurisdiction over the exchange as a body dealing with quasi public interests. To alter fundamentally the present legal status of the exchange would be a pure experiment. It is not true reform—it is a wild dream of a class which believes in breaking up or pulling down without soberly considering results.

NEW YORK, *September, 1913.*

(The following statement of Prof. Sprague was made at different times during the sessions of the committee on September 16 and 17 and is inserted at this point in the record in order that the remarks may be consecutive:)

FURTHER STATEMENT OF PROF. O. W. M. SPRAGUE, OF HARVARD UNIVERSITY, CAMBRIDGE, MASS.

[Proceedings of Sept. 16, 1913.]

The CHAIRMAN. Prof. Sprague, we have had many witnesses who, passing upon this matter, have been suggesting changes in the bill. I do not think we have had a single witness who has pointed out anything in the bill that was of advantage. Would you be kind enough to point out what features of the bill you regard as improving the present system, if you consider that there are any such features?

Prof. SPRAGUE. There surely are many good features in this bill, Mr. Chairman, and I will try to indicate some of them to the committee before I go on to make such suggestions as to changes as I have in mind.

Senator POMERENE. Let me suggest, Mr. Chairman, before Prof. Sprague goes on, that of course the committee understands that he is a professor in the University of Harvard, and so on; but I think it would be well for him to give his residence, his connections, and so on, for the benefit of the record.

The CHAIRMAN. Yes; it would be well for you to put that at the head of your statement, Prof. Sprague.

Senator SHAFROTH. In other words, you can answer the usual interrogatories by lawyers—"What is your name, residence, and occupation," etc.

Prof. SPRAGUE. My name is O. M. W. Sprague, and I am converse professor of banking and finance in Harvard University.

At the hearing on September 5, I indicated the defects in our banking system which this bill is designed to remedy. I believe that the measure, if adopted in its present form without change, would provide the machinery which under competent management would very largely remove these defects. The institutions to be established would have adequate resources to meet seasonal requirements and to enable them to handle emergencies effectively. Their operations would also tend to make commercial paper the most liquid asset for all banks; this because the Federal reserve banks are limited in their rediscounting operations to commercial paper.

At the present time banks employ an undesirably large portion of their funds in stock-exchange loans, not because they have any particular preference for this sort of loan, not because they wish to give special consideration to those engaged in speculative activities, but because most bankers have been of the opinion that it was possible to liquidate stock-exchange loans more quickly than commercial loans.

One result of the adoption of this measure will unquestionably be that a somewhat smaller proportion of bank loans will be available to borrowers engaged in dealings in securities.

This will be due in part to the change in the relative liquidness of commercial paper contrasted with security loans, which I have already mentioned, and will be in part due to the decentralization of reserves, for which provision is made in the bill.

Whether the decentralization of reserves provided in the bill may not cause disturbance during the period of transition is a question which should be given careful consideration. The present arrangement of reserves is, after all, in large part, the result of national legislation which authorizes the counting of balances with city banks as reserve for country banks. This is a feature of the bill to which I shall come a little later.

When I say that the bill, if passed in its present form, would remove the most serious defects in our banking system, I assume two things: First, that the banks generally assent to the arrangement; and, secondly, that the management of the various institutions to be established shall be competent.

Senator SHAFROTH. The management shall be what? I did not understand.

Prof. SPRAGUE. Shall be competent.

The problems which will confront the management of these institutions will be novel and complicated. As I indicated in the previous hearing, these institutions, possessing great powers to extend credit, must also possess some power to restrain the abuse of credit.

The managers of the reserve banks will find, I am convinced, that they will often have to act counter to general public sentiment—both the sentiment of the business community and the sentiment of bankers in general. There are comparatively few people in the community who can ever be convinced, in any circumstances, that it is desirable to lessen the amount of credit available. And yet this will

be at times the duty of the managers of the Federal reserve banks and of the Federal reserve board.

The CHAIRMAN. To limit credits?

Prof. SPRAGUE. To limit credits. I will consider the situation this spring as an illustration.

Suppose these institutions had been established, and that they had available a large amount of lending power. There would have been strong pressure put upon the management of the reserve banks to grant rediscounts liberally last winter and spring and this summer. Very few people in the business community were of the opinion at that time that it was desirable that credits should be in the slightest degree curtailed, but rather they held the opinion that they should be increased.

Senator BRISTOW. Pardon me, Prof. Sprague, but I think it is better to ask these questions when they come to our minds, if it does not disturb you.

Prof. SPRAGUE. No, Senator Bristow; it does not disturb me.

Senator BRISTOW. You say that the people in the business community thought it would have been unwise?

Prof. SPRAGUE. No; that the people in the business community thought it would have been wise.

Senator BRISTOW. Oh, they thought it would have been wise?

Prof. SPRAGUE. Yes; they wanted more credit.

Senator BRISTOW. Well, do I understand you to say that there should not have been more credit?

Prof. SPRAGUE. I say that emphatically. I hold that the moderate amount of liquidation which has taken place during the last six months has been of very great advantage to the business community. It has strengthened the business situation. Large numbers of concerns were borrowing distinctly more than was altogether safe at that time. They were endeavoring to conduct an increasing amount of business upon insufficient working capital provided by themselves. In other words, they were endeavoring to supply increasing working capital requirements by means of short-time loans, and entirely by that means.

Senator BRISTOW. Well, am I to understand that you think it is desirable that some commission, or board, or individual should have the authority to say when this credit shall be extended and when it shall not be extended?

Prof. SPRAGUE. If these Federal reserve banks are to possess special powers to extend credit, they must use great judgment in granting that credit. For nothing is more certain than that indefinitely large additions to the total supply of credit are an unhealthy business influence. The local banker is not in position to take such considerations sufficiently into account. He is lending to his local customer. He is eager to make as large profits as he can; he lends ordinarily all that his reserves will permit him to lend.

Senator BRISTOW. Well, why should not he do that, if it is safe?

Prof. SPRAGUE. But it is not safe.

Senator BRISTOW. Well, who is a better judge than he as to its safety?

Prof. SPRAGUE. He is a fair judge regarding particular loans, but not regarding the general situation.

To take a particular instance of a company which expanded its operations during the last two years by quite 100 per cent: It provided itself with a sufficient amount of capital by means of long-time obligations to enlarge its plant, but it did not provide itself with any additional capital with which to finance its sales. It relied upon banks for these additional requirements, and it succeeded in getting from banks in one way or another the funds for these additional requirements, but its situation was far less satisfactory than before, for any delay in collections became an increasingly serious matter.

Senator BRISTOW. Well, is not that a question for the local banks that lend this concern money to decide? What right has any board or commission to say to that bank that this man or that man is or is not good, or that the bank ought or ought not to make this loan to him? Why should not the head of that bank decide that question for himself?

Prof. SPRAGUE. The local banker should decide that; but when the local banker appears before the Federal reserve bank desiring to rediscount a large amount of paper in order to get the funds with which to make additional loans, then it becomes the duty of the Federal reserve bank to determine whether the situation is becoming overextended; whether it is safe that large additions should at that time be made to the available credits at the disposal of the local banks.

Senator BRISTOW. Well, why should not the same rule apply to this—of course I do not take much stock myself in these regional banks; I think it is a kind of artificial arrangement that is not very desirable. But it may be; I do not know much about it.

Senator SHAFROTH. Do you think that they are less desirable than the central banks, Senator Bristow?

Senator BRISTOW. Well, I do not believe in either.

Senator SHAFROTH. You do not believe in either?

Senator BRISTOW. No; I think we have got along pretty well before this idea was developed; and it seems, because we do need some elasticity—although not nearly so much as speculators think—that they are undertaking to reform the whole world, because there are defects that could be cured without much trouble. But why should not the man who discounts this paper decide whether or not it is a good business proceeding to do so, instead of having that question decided for him by some student of finance? It is his money to invest, why should he not decide for himself whether it is good policy to do so or not?

Prof. SPRAGUE. So far as the banks are using their own resources I quite agree with you, but it becomes a different question when that local banker desires to borrow from the Federal reserve bank, in order that he may lend more to his own customers.

The management of the Federal reserve bank has no voice in the matter until the various local bankers desire to borrow from the Federal reserve bank.

It is proposed here to set up institutions with power to enlarge the total amount of credit to a very great extent. This power to increase credit should be coupled with the power and determination to exercise judgment in granting this credit. It is not a question of reducing the resources of the local banks; it is simply a question as to whether

it is desirable, at any particular time, to increase their resources, and as to how much it is desirable to increase those resources.

Senator SHAFROTH. How, under this bill, Prof. Sprague, will the regional banks contract credit?

Prof. SPRAGUE. They will at times contract the credit which they themselves have created. If, for instance——

Senator SHAFROTH (interposing). Will it be by simply refusing accommodations?

Prof. SPRAGUE. Yes. If, for instance, they opened for business this morning, and during the next two months they did a business of, say, $200,000,000, that would be the net addition to the amount of credit which would otherwise have been granted the business community. Now, they will have power to contract the credit which they have advanced if it seems wise to do so.

Senator SHAFROTH. Then the paper they have taken as security becomes due, does it not?

Prof. SPRAGUE Yes; that is the only way they will contract. The resources of the banks, other than the Federal reserve bank, will be just as great in any case as they would have been if these institutions had never been established.

Senator SHAFROTH. Yes. Now, under the provisions of this bill, Prof. Sprague, the currency which is now known as the national-bank note would be substituted by the Treasury note which is prescribed, would it not?

Prof. SPRAGUE. That is a matter which I do not think is satisfactorily handled in this measure; and my first suggestion for a change has to do with the matter of the national-bank note.

Senator SHAFROTH. Well, now, give us your suggestions as to that change in the measure, will you?

Prof. SPRAGUE. The bill provides for the gradual substitution of Federal reserve Treasury notes for the existing circulation of the national banks—seven hundred odd million dollars. This is to be carried through gradually. But, when completed, at the end of 20 years, the Federal reserve bank would presumably have steadily outstanding notes for at least as much as this $700,000,000 of national-bank notes. In addition, they would, of course, have such further amount as might be deemed advisable. But surely they would have outstanding at all times something like the existing issue of national-bank notes.

As security for any issues of notes these Federal reserve banks must, in addition to a cash reserve of 33⅓ per cent, deposit as security 100 per cent in commercial paper. It follows, therefore, that if these Federal reserve banks are to issue regularly $700,000,000 of notes to take the place of the national-bank notes, they must be constantly doing a business in rediscounting commercial paper of at least $700,000,000.

Now, I think it is wholly undesirable that these institutions should be doing any such amount of business as that merely to maintain the status quo.

Senator SHAFROTH. In other words, these 90-day notes, or discounts, that they have taken in order to maintain the currency after it has once been issued, will have to be discounted continually every 90 days, or at intervals——

Prof. SPRAGUE (interposing). Yes.

Senator BRISTOW. Or there will be a contraction?

Senator SHAFROTH. Yes. In order to keep that paper money in existence, or else contraction must occur?

Prof. SPRAGUE. Yes, sir; the amount of paper money in existence, to say nothing of that amount which, in the course of 20 years, it will be perfectly proper to issue because of the growth in population and business of the country.

I hold that a different form of security should be provided for the amount of circulation issued by these Federal reserve banks, which simply takes the place of the existing issue of the national banks; and I propose as security for this $700,000,000 or $750,000,000 the very same security which the national banks now hold; that is to say, United States bonds.

Senator BRISTOW. Well, why not leave the same debt as it is, so far as they are concerned?

Prof. SPRAGUE. There are two reasons for making the change. In the first place, the change would give these regional associations a certain steady income without any additional burden upon the Government.

I would exchange the 2 per cent bonds held now by the national banks for a 3 per cent Government issue when the bonds were taken over by the Federal reserve banks from the national banks. I would then impose a tax of 1½ per cent upon these issues of notes, so that the burden upon the Government would be exactly what it is now, since at present on notes secured by 2 per cent bonds there is a tax of one-half of 1 per cent. Therefore, if a tax of 1½ per cent were imposed and the rate on the bonds raised to 3 per cent, the situation, so far as the Government is concerned, would be exactly as it is at present.

Senator BRISTOW. That would have a tendency to contract the currency, however, would it not?

Prof. SPRAGUE. No; the national banks would surrender $700,000,000 of bonds to the Federal reserve banks. The Federal reserve banks would then assume the obligation of the $700,000,000 of outstanding national-bank circulation.

Senator SHAFROTH. Would you do that all at once, Prof. Sprague?

Prof. SPRAGUE. I would do it all at once. The reason for making this change from 2 to 3 per cent bonds, and raising the tax from one-half of 1 per cent to 1½ per cent is this: It is desirable that these Federal reserve banks should have a marketable security. The 3 per cent——

Senator BRISTOW (interposing). Well, why should the security be marketable?

Prof. SPRAGUE. I am going to explain that in just a moment. The 3 per cent bonds, perhaps, would be marketable. But I do not think it is desirable or necessary that the Federal reserve bank should dispose of the 3 per cent bonds to the general public permanently. But if a part of these 3 per cent obligations were put in the form of one-year notes, then the Federal reserve bank could readily market, at any time, its one-year notes at par; at the end of the year the one-year notes would be paid by the Government, but paid through the Federal reserve banks which would take over from the Government another issue of one-year notes.

Let me illustrate it in figures: Suppose that we secured the $700,000,000 of Federal reserve bank notes which take the place of the national bank notes by $400,000,000 of 3 per cent bonds, maturing in 20 years, and by $300,000,000 of one-year notes the Federal reserve banks being under the obligation, at the end of each year, to take another batch of one-year notes, maturing 12 months later, and so on year after year.

The only purpose of putting a part of this Government indebtedness in the form of one-year notes is to give the reserve banks something which they could readily market at any time when it might seem desirable to them to increase their resources or to secure control of the market.

The greatest difficulty which will probably confront the management of these regional banks will be that of making the rate of discount effective. When the other banks have abundant funds, the rate which the regional banks may set up for rediscounting will be wholly ineffective. At times it is exceedingly important that banks such as these shall be able to control the market in a measure to make their rate of discount effective. That could be done easily if among the assets of these Federal reserve banks were one-year notes—Government notes—which the Federal reserve banks could sell in case they desired to make their rate of discount effective.

All of the European central banks have assets of this sort, and it is very largely by the manipulation of these short-term Government obligations that they are enabled to make their rates of discount effective whenever it seems to them desirable.

Senator SHAFROTH. Do not the European banks, in order to make their rates effective, often go upon the market and buy securities for the purpose of taking up the quantity of available paper offered for sale among the other banks?

Prof. SPRAGUE. Oh, no; just the contrary; if they buy then they must pay, and that will provide the market with more funds of these central institutions. The method is to sell; then the market has to pay.

Senator SHAFROTH. Often they sell their paper at a less rate than they have discounted it for?

Prof. SPRAGUE. Commonly they do not sell the paper that they have discounted; they sell these Government obligations. It is contrary to traditions that these central institutions should take commercial paper which they have already discounted and dispose of it to some other institution, but they do take Government securities and sell them, and the payments for these securities reduce the available resources of the market, and consequently market rates move up.

Senator SHAFROTH. What Government securities would these banks have?

Prof. SPRAGUE. Under the plan I have suggested, they would have $700,000,000 of Government securities which they would have taken over from the national banks, but a part of that would be in the form of one-year notes renewed year after year and a part of them would be in the form of long-time bonds.

Senator SHAFROTH. Bonds of the Government?

Prof. SPRAGUE. Bonds of the Government.

Senator SHAFROTH. That is, United States bonds or bonds which they have hypothecated there?

Prof. SPRAGUE. No; I referred simply to Government bonds which the reserve banks would have taken over from the national banks on assuming the obligation of the national banks to redeem their outstanding circulation. No money would pass.

Senator SHAFROTH. But would not they have to hold those bonds as security for the circulation?

Prof. SPRAGUE. It should also be provided that in lieu of securities the bank might impound gold or lawful money as security. Under the provisions of this bill the Federal reserve banks must hold 33⅓ per cent in cash and 100 per cent in commercial paper. I should suppose that no one could conceive of any objection to the banks holding, say, 10 per cent more in cash and only 90 per cent in commercial paper. If they held 43⅓ per cent in cash, why, clearly 90 per cent in commercial paper would be an entirely additional security. So, in the case of these Government obligations to which I referred, as securing the $700,000,000 of circulation, those notes might very well be secured by gold or lawful money in lieu of the Government obligations, and that would give the reserve banks a free hand in disposing of some of these securities when it might be necessary in order to make discount rates effective.

Senator SHAFROTH. This bill, Professor, provides that the reserve bank shall pay no interest upon deposits except to the Government. Will that not have a tendency to prevent the depositing of moneys of national banks or of other banks with the Federal reserve bank?

Prof. SPRAGUE. Unquestionably so.

Senator SHAFROTH. In other words they would prefer, above the amount which they are required to keep there for their own resources——

Prof. SPRAGUE. Yes.

Senator SHAFROTH (continuing). And the capital which they invest in the matter of the required 20 per cent or 10 per cent—they would, of course, prefer to keep their deposits in New York and get a rate of interest on them?

Prof. SPRAGUE. Surely.

Senator SHAFROTH. Do you think that is a good provision that requires that the Federal reserve banks shall not pay interest on deposits?

Prof. SPRAGUE. I do. These Federal reserve banks should not be placed in a position which will make it difficult for them to earn at least their running expenses and a moderate return on their capital; and yet it is probable that at certain times there will not be enough business for these institutions, if wisely handled, to yield very large earnings. Their earnings will vary with the activity of business, but in periods of business inactivity, in years like 1908 and 1909, I can not see where these institutions will secure any very considerable income. Further, I do not regard it as desirable that all of the banks in the country should deposit temporarily idle funds in these regional institutions. The result would be to overburden these regional institutions with enormous amounts of funds and varying amounts of funds, which they would find it extremely difficult to invest profitably and to the general advantage. I think that these institutions should have resources sufficient to accomplish the particular pur-

poses of meeting seasonal requirements, of keeping the banking machinery going in emergencies, and so on; but I do not think any evils have been shown in our system as the result of the depositing of reserves in city banks, which call at the present time for arrangements which would make it wholly impossible or undesirable for the banks to deposit any funds whatever with each other.

Senator SHAFROTH. Professor, what objection is there for the currency which is to take the place of the national-bank note being made a full legal tender for the payment of all debts and dues to the Government?

Prof. SPRAGUE. I do not feel that there is any danger——

Senator SHAFROTH. Would it not have a tendency to strengthen the currency?

Prof. SPRAGUE. There has been no difficulty whatever regarding the currency since 1897. The currency problem settled itself very largely because of the enormous increase in gold production. The silver certificates and the bank notes and the United States notes were too large a part of our total circulating medium in the early nineties. They are not a dangerously large part of the circulating medium at the present time, because we have, like other countries, much more gold than we had 15 years ago, and it makes no difference whatever whether you make the silver certificates and the United States notes and the national-bank notes legal tender or not. People who worry about that are simply fighting over again the battles of 20 years ago, not realizing that conditions have changed. If you do not increase the amount of silver certificates and national-bank notes that you make legal tender above the existing amount, it does not make the slightest difference whether you make them legal tender or not.

Senator POMERENE. What effect would it have upon the supply of gold?

Prof. SPRAGUE. It would have no effect whatever. All of these kinds of money are in fact in circulation practically as if they were legal tenders now. If they had not been in circulation, if we had not had them, there would, of course, be more gold in the country now than in fact there is; but there is an abundantly sufficient supply of gold in the country, so that all of the various paper issues are entirely safe.

Senator SHAFROTH. Would not the legal-tender quality added to the paper, if there ever comes a time when the quantity of gold may be slight, make such a demand for the legal-tender currency by reason of there being probably 100 billions of debt or 80 billions of debt, as I have seen it stated, that could be paid in the full legal-tender money, and would it not have a tendency to keep its parity with gold bullion if it was legal tender?

Prof. SPRAGUE. It would have a very slight influence in that direction, but the fundamental factor would be its quantity relative to the quantity of gold. If gold production all over the world were suddenly suspended, one can conceive a situation in which a considerable amount of the gold now in circulation in this country might go abroad. I do not say that it certainly would go, but in such an extreme case it might, and in that case the existing amount of paper might be relatively too great, but I do not regard discussions of that sort now as being of any great practical importance,

and for the reasons which I have mentioned. There are a great many persons who would disagree with me about this point, but I believe that they are simply basing their present arguments upon recollections of past conditions.

Senator SHAFROTH. Well, at any rate the legal-tender character of the permanent money could not be of any detriment to the stabilities of that money?

Prof. SPRAGUE. Oh, no.

Senator SHAFROTH. Professor, you mentioned the other day in your testimony—I do not know whether it was in talking to me privately or whether it was in your testimony—that the bill which I introduced concerning the national-bank currency might be made workable by a few changes. Will you point out the changes that you suggest?

Prof. SPRAGUE. It begins to be apparent that I am to go on until after lunch, and I should like to go over the bill once more.

Senator SHAFROTH. All right. Then, we will change that line of questioning.

I want to know, Professor, if you have got a table that would indicate the quantity of gold reserves that are required of the central banks of Europe to back their currency. In England we know that, outside of the $90,000,000 or £18,000,000, they keep dollar for dollar of gold back of their notes that they issue and which, with the $90,000,000, makes a gold reserve of practically 66 per cent. Do you know what the Imperial Bank of Germany keeps?

Prof. SPRAGUE. They are required to hold a cash reserve of at least 33⅓ per cent.

Senator SHAFROTH. You mean a gold reserve?

Prof. SPRAGUE. Not a gold reserve. It includes silver and it includes an issue of Imperial Government notes, a relatively small issue, and only a small part of it is found in the reserve of the Reichsbank; but there is no specific gold requirement of reserve against their notes. As a matter of fact, the gold reserve has varied enormously in its ratio to the notes.

Mr. CHARLES A. CONANT. I think the German law of 1911 required gold to be held in lieu of lawful money previously required. You know they revise the law every 10 years. Is not that your recollection?

Prof. SPRAGUE. Very likely you are right.

Senator SHAFROTH. What percentage?

Mr. CONANT. Thirty-three and one-third per cent is legal, but actual holdings are enormously above that.

Senator SHAFROTH. Is that gold or gold and silver?

Mr. CONANT. Gold since 1911; previously lawful money, but always mainly gold.

Senator SHAFROTH. I notice by Mr. Conant's work that in Canada a gold reserve is required of 25 per cent upon the issue of Dominion notes up to $30,000,000, and that thereafter they have a provision something like our gold certificates by which any person can get a certificate or a note upon depositing a dollar in gold. Has there been any change in that law within recent years that you know of?

Prof. SPRAGUE. No; there was a change in the conditions of note issue of the Canadian banks, but my recollection is that no change was made as regards the conditions of issue of the Canadian note,

but the issue is somewhat analogous to the arrangement which you propose in your bill.

Senator SHAFROTH. Something like the requirement as to the greenbacks?

Prof. SPRAGUE. Yes. Suppose, for instance, that we fused the $150,000,000 gold reserve and all the gold held against the gold certificates and issued a uniform note, with that gold as reserve, and provided that additional notes would be issued if gold were brought to the Treasury. Thus any increase in the issue would involve an equivalent deposit of gold, but the total deposit of gold would be less by the difference between $150,000,000 and $346,000,000 than the gold held. That is virtually the Canadian note.

Senator SHAFROTH. Professor, will you explain to us the process that would take place under this system of making the rate of discount effective?

Prof. SPRAGUE. The rate of discount of institutions such as are proposed will be effective without any difficulty if the other banks are quite generally borrowers by means of rediscounts.

Senator SHAFROTH. From these banks?

Prof. SPRAGUE. From these banks. For then it will be only necessary for the Federal reserve bank to raise the rates, and the other banks, finding that they must pay higher rates for rediscounts, will naturally exact higher rates from their own customers. It happens, however, at times that it is thought desirable to make the rate of discount of such institutions effective, when the other banks are not borrowing to any appreciable extent, when the other banks' own resources are quite sufficient to enable them to meet all demands for accommodation at lower rates than the reserve banks deem advisable. It is then that the reserve banks would find it necessary to curtail the resources of the market, and they could accomplish that if they had this succession of one-year Government 3 per cent notes that I have spoken about. Otherwise I do not see how these institutions could secure effective control, unless they themselves were doing a large amount of business with the general public. The Bank of England does a considerable amount of business with individual customers.

Senator SHAFROTH. Professor, when the Bank of England has a discount rate—that is, a rate of interest at 4 per cent—you will often find the loans are made by outside banks as low as 3 per cent?

Prof. SPRAGUE. Yes.

Senator SHAFROTH. Do you call that rate effective under that condition of affairs?

Prof. SPRAGUE. No.

Senator SHAFROTH. It is not?

Prof. SPRAGUE. The rate then is not effective.

Senator SHAFROTH. It is only effective when it raises the rate of discount by the general banks equal to the Bank of England?

Prof. SPRAGUE. Or very close to it.

Senator SHAFROTH. And that is presumed to invite foreign capital to buy securities there, and thereby an influx of gold comes in?

Prof. SPRAGUE. That would be more true of a market in the position of the German market. In London a large part of the foreign trade of all the world is financed. When, therefore, rates go up in London, there is a tendency upon the part of foreigners to finance their own trade a little more at home than they formerly were doing,

and it is by that means that the advance in the rate of discount in London tends to relieve the demands for accommodation in the London market.

Now, the problems which will confront our Federal reserve banks will be very different and in some respects less easy to handle than in London. We shall not be financing the foreign trade of other countries, and it is somewhat uncertain whether we shall finance the bulk of our own foreign trade. When we liquidate, therefore, the pressure comes upon people within the country doing business in this country; when London liquidates the liquidation is spread over pretty much the entire commercial world, and it is carried through more easily and is less disturbing to the domestic borrower in Great Britain. Our regional bank managers will find that the foreign exchanges are a very much less important factor in determining their policy than they are in the case of the Bank of England. The situation of the foreign exchanges has never, I should say, in the past been a fundamental cause of financial disturbance in this country. Even in 1893 it was not a fundamental cause, and in so far as it was a cause it was due to the redundancy of the currency and excessive silver issues; and in 1907 the commotion of that year was not due to the unsatisfactory situation regarding foreign exchanges, but it was due to unsatisfactory conditions in the country itself, and that will probably continue to be the situation for many years to come.

Our regional reserve banks therefore will have to direct their policy to conserving and strengthening the situation at home, since when they come to liquidate, if they do, it will be liquidation of accommodation to our own people and not, as is largely the case in London, the liquidation of loans made to people in all of the different commercial countries.

Senator SHAFROTH. Do you contemplate that under the workings of this bill that we will have one rate of discount in one regional district and another rate of discount in another regional district?

Prof. SPRAGUE. I do; and I regard that as one of the great excellencies in this bill. I covered that point at some length the other day when I appeared before the committee.

Senator SHAFROTH. I remember something of it, but I do not remember all. I do not think I was there all the time. I do not care, however, for you to go through it again, if it is in the record. I expect to read the record fully anyway.

Senator BRISTOW. I asked the Professor something about this restraining of credits. I wanted to get his ideas as nearly as I could. The plan that he suggested, as I understood it, was that when the local bank comes to the regional bank desiring currency——

Prof. SPRAGUE. Or credit?

Senator BRISTOW. Yes. That this bank shall determine whether or not it shall have it. Suppose that a member bank that needs more money or could use more money to make loans that were good loans brought a portfolio of notes to be discounted, in order to get the currency to use. Your idea is that that regional bank shall accept these notes or not as it sees fit?

Prof. SPRAGUE. Not quite that. Of course it would exercise that right if it thought the security presented by the borrowing bank was unsatisfactory.

Senator BRISTOW. Yes.

Prof. SPRAGUE. But, assuming that the security itself were satisfactory, then the reserve bank would in no case positively refuse to rediscount; but if in the judgment of the board the situation was one in which it was desirable to restrain credit a little or keep it from expanding quite so rapidly as it seemed likely to expand—to put up its rate of discount, to charge, for instance, 6 per cent instead of 5—these general considerations which I have talked about with reference to the danger of overexpansion and that sort of thing would be taken into account by the managers of the reserve banks in determining the rate at which they would rediscount. They would not be a ground for wholly refusing to lend.

Senator BRISTOW. In other words, that puts in the control of the regional banks the power to expand or contract the currency?

Prof. SPRAGUE. It does.

Senator BRISTOW. Do you think that is desirable?

Prof. SPRAGUE. That power must be somewhere, if we are to have a currency that will be adjusted to varying requirements for currency.

Senator POMERENE. Where would you lodge it, Senator?

Senator SHAFROTH. Have a permanent currency like the greenbacks now, and then——

Senator BRISTOW. I would not give it to two men, I am sure.

Senator SHAFROTH. And then let it be operated in this way——

Senator BRISTOW. It seems to me, of course, that is placing in the hands of these 12 banks the power to expand or contract, and it is a question of judgment——

Prof. SPRAGUE. It is.

Senator BRISTOW (continuing). With them.

Prof. SPRAGUE. The situation is this at the present time: We have another kind of currency which is wholly controlled by banks—that is, deposit currency; 90 to 95 per cent of the business of the country is done with checks drawn against deposit accounts, and the banks by making loans increase the amount of those deposit accounts, and consequently the amount of checks that are drawn, and very largely those checks never involve any use of money or currency whatever.

Senator BRISTOW. But there is this radical difference, as I see it, in operation. There are 25,000 banks. They do this in the normal operation of their business, and this other system gives 12 banks the power to do it irrespective of what the other 25,000 banks might wish.

Prof. SPRAGUE. It leaves the 25,000 banks the powers which they now have over this deposit currency, but it adds a group of institutions with some power also to increase and decrease deposit currency and a considerable power to increase and decrease note currency, because we have found in the past that the 25,000 banks working separately land us in chaos every 15 years.

Senator BRISTOW. I hear a lot about this "chaos." I would like to know what chaos it is.

Prof. SPRAGUE. We are in chaos when it becomes impossible for the time being to make payments by the ordinary banking machinery. When a man who has purchased cotton in Memphis and has in turn sold it to Liverpool is unable to get back to Memphis the proceeds of that sale from New York so that he may continue to buy more cotton and to ship more cotton; that is the situation which

occurred in 1907, and it was reflected in a contraction and a decrease in the amount of goods between different parts of the country.

Senator BRISTOW. That was because New York refused to send the currency, was it not?

Prof. SPRAGUE. But we are trying to develop a system under which New York will not refuse to send currency.

Senator BRISTOW. Now why is not this present law, the Vreeland bill, if made a little more flexible, just as good as all this machinery that you are trying to create here?

Prof. SPRAGUE. Because it leaves the situation as regards the use of the liquid funds of banks just what it is at the present time. It does not lessen the concentration of the money in idle bonds in New York, and it leaves the stock-exchange loan apparently, if not in fact, the most liquid asset which banks can hold.

Senator BRISTOW. The concentration of funds in New York is largely because the New York banks pay interest on these reserves?

Prof. SPRAGUE. Oh, no, no. You could abolish the interest upon reserves and yet New York would continue to be the center where the strain would be concentrated in emergencies, for outside banks would then lend direct in the New York Stock Exchange, as many of them do now, whenever the call rate is at all above 2 per cent, and it is always much above that in any period prior to an emergency.

Senator BRISTOW. As I understand, the only difficulty is in getting the money from New York when it is needed in these commercial transactions, and New York needs it and does not want to send it to New Orleans. This Vreeland bill proposes that under conditions of that kind that the bank can take certain securities and get the money direct from the Government, and an interest rate is imposed so that when the stress is over that that retires itself. Why would not that be effective?

Prof. SPRAGUE. If the machinery were somewhat improved, I will admit that it would make the situation somewhat more workable than it is at present, but it would not lessen the tendency to invest temporarily idle funds on the stock exchange, would not make commercial loans the most liquid assets banks can hold, and therefore give such borrowers the lowest going rate. The situation in this country is this——

Senator BRISTOW. I do not believe in that, you see. I do not think a man who gives a note for 90 days is entitled to any lower rate than a man who gives it for a year, unless the security is better.

Prof. SPRAGUE. It is so here, but in England a man who is in business and who buys some wool for the purpose of making it up into cloth will get a lower rate ordinarily than the man who buys 100 shares of steel stock and uses that as a basis for a three-months' loan. The secured-security loan has to pay a higher rate in London than the mercantile loan, and that is distinctly a desirable situation.

Senator REED. Why?

Prof. SPRAGUE. I would not say that the secured-security loans——

Senator REED. Why is that desirable?

Prof. SPRAGUE. Because upon the whole the proceeds of mercantile loans are being used in connection with current industrial processes, whereas the proceeds of secured-security loans may be used for that purpose; they may be used also in connection with the marketing of new issues of securities, and then they serve a

highly useful purpose, but they very largely are used for the purpose of simply holding securities for a rise, and that is not serving a particularly important economic purpose. If I buy 100 shares of steel stock, hoping that it will go to 80, I do not see why I should be able to get a three-months' loan at 4 per cent while you, who are engaged in making cloth, are obliged, we will say, to pay 6.

Senator REED. I did not mean to interrupt the progress of your examination, Senator. I will take this up later.

Senator BRISTOW. Just a moment. There is another point. I understood you to say, Professor, that one of the desirable features of this bill was that it would decrease security loans?

Prof. SPRAGUE. The tendency would be to decrease the security loan.

Senator BRISTOW. And increase these commercial loans?

Prof. SPRAGUE. Yes.

Senator BRISTOW. Do you think these commercial loans ought to be given greater consideration than the permanent and stable investments of the country?

Prof. SPRAGUE. Well, that is quite a different proposition. The security loans to which I refer are like the commercial loans as regards maturity. They mature at various dates, commonly within six months. We are considering here short-time loans of various kinds. The question of rate upon long-term obligations—bonds and mortgages—is wholly a different matter.

Senator BRISTOW. But in this banking system that we are undertaking to create here, the only kind of paper that can be made a basis of currency—that is to be the currency of the country, substituted for the national-bank currency we now have—is this commercial paper?

Prof. SPRAGUE. That is not my proposition. My proposition is that of the comparatively small fluctuating part of the currency, the $100,000,000 or $200,000,000 or $300,000,000 by which it is desirable if the total amount of currency in a given year should expand and contract, should be related in some way to those commercial operations which occasion these changes in requirements for currency. I do not believe that these Federal reserve banks, if properly handled, will, aside from the present outstanding circulation of national-bank notes, issue in any ordinary year more than $100,000,000 or $200,000,000 of currency.

Senator BRISTOW. You have used the expression several times "if properly handled"—that qualification. Suppose it is improperly handled, then what?

Prof. SPRAGUE. Then it were better we had none of this legislation. But we never have feared to set up desirable arrangements because of the fear that they might be abused, and I suppose that we would all agree that if they are abused that we shall learn in the course of time how to use these arrangements, if they themselves are of a desirable kind.

Senator BRISTOW. Ah, but, Professor, here we are placing in the hands of these 12 banks the authority to contract or expand the currency.

Prof. SPRAGUE. Not the authority to reduce it below its present amount; simply the authority to contract that amount which they have previously expanded.

Senator BRISTOW. But this bill gives them the power to contract the currency by law—that which we now have—does it not?

Prof. SPRAGUE. I am not quite certain, for, as I said at the outset, I find the note-issue section of the bill unsatisfactory, and I find it a little difficult to make clear to my mind just how it would work, but I can say, regarding the suggestion that I make, that it would not give these Federal reserve banks——

Senator BRISTOW. Your suggestion is entirely different from this bill?

Prof. SPRAGUE. It is.

Senator BRISTOW. Oh, yes; very different. You propose a currency quite similar to the national-bank currency we have now—somewhat different—I do not think as good, to be frank with you.

Prof. SPRAGUE. Yes.

Senator BRISTOW. Because I do not believe in giving these banks these short-time notes in order to let them put pressure on the public and discourage business and business activity, but the same principle would underlie your system that we now have?

Prof. SPRAGUE. Yes.

Senator BRISTOW. If that is the system which is to be abolished and this other substituted for it——

Prof. SPRAGUE. I do not propose to change materially the conditions under which the existing volume of currency is issued. I would confine the control of these institutions almost wholly to that part of the supply of credit which they themselves create, leaving to the banks the control over the supplies of credit which they now control, and leaving the outstanding currency in volume where it is, so far as its amount goes.

Senator BRISTOW. Leaving the national-bank notes as they are, will you state—if you are not prepared to do it now, this afternoon sometime—just what changes ought to be made in the present Vreeland bill in order to give desirable flexibility to the currency?

Prof. SPRAGUE. That would be on the assumption that no bill of this kind is to pass, and to indicate how the Vreeland bill might be changed in details, not in essentials, to make it at least helpful. I will attempt to do that, but I think I would prefer to take that up after I have finished with this bill.

Senator BRISTOW. All right.

Prof. SPRAGUE. And I can give it a little more thought.

Senator BRISTOW. You can do that in writing, if you will. I would like to have it, Mr. Chairman. As I understand, there are two weaknesses in our present currency system, concerning which complaint is made, and that is that it is not flexible, and that the rates are not mobile; that a large amount of the money is locked up in individual banks as reserves.

Prof. SPRAGUE. I should add to that a third defect, which I regard as even more serious, that our check machinery breaks down in every emergency.

Senator BRISTOW. The "check machinery"?

Prof. SPRAGUE. Yes. In 1907, for instance——

Senator BRISTOW. That was by the violation of the law by a bank refusing to pay out money upon check when it ought to have done it, because it said it could not?

Prof. SPRAGUE. Yes.

Senator BRISTOW. If that bank could take its securities and get the money, then there would be no reason for it refusing that payment, would there?

Prof. SPRAGUE. That is right.

Senator BRISTOW. Could not the Vreeland bill be made so as to meet that emergency?

Prof. SPRAGUE. I will either make a statement at the end of my discussion of the bill or put it in writing.

Senator BRISTOW. This breaking down of the checking system is due to the inflexibility of the currency, is it not?

Prof. SPRAGUE. It is due to the failure of the banks to make remittances to each other between different parts of the country, whether because they refuse to use the reserves which they have or whether because the reserves which they have are not large enough, or whether because the currency is inflexible is——

Senator BRISTOW. Is it sometimes because they do not want to do it?

Prof. SPRAGUE. It is because we have in this country made a fetish of the required reserve. The bankers and the public have the idea that a bank must maintain its legal ratio of reserve to deposit liabilities, though the heavens fall. They do not take the view that the reserve is something to be used.

Senator BRISTOW. That is the fault of the reserves; that is the immobility of the reserve and the inflexibility of the currency. Do not all these complaints that you make come right back to these two things?

Prof. SPRAGUE. Yes, sir; one can put it that way.

Senator REED. May I ask a question?

Senator BRISTOW. Yes; certainly.

Senator REED. Just abandoning all circumlocution, you get back to this, do you not, that the bank takes over its counter a given sum of money, say, $1,000,000, all of which may be demanded in a moment?

Prof. SPRAGUE. Yes.

Senator REED. And it loans it out—about 80 per cent of it—which it can not get back under 30, 60 or 90 days?

Prof. SPRAGUE. Yes.

Senator REED. That is just where we come to; that is what you mean, is it not?

Prof. SPRAGUE. That is the whole theory of credit banking.

Senator REED. That is the whole difficulty. If the banks could go and get the cash any time they wanted to, they would not have to stop their checks and they would not have any trouble?

Prof. SPRAGUE. That is true.

Senator REED. That is all.

Senator BRISTOW. As I said awhile ago, I do not think, Professor—it may be because I do not comprehend it properly—that you presented any other weaknesses that do grow out of these two alleged defects.

Prof. SPRAGUE. How about the better rates for security as contrasted with commercial loans?

Senator BRISTOW. Well, I do not think law ought to control that.

Prof. SPRAGUE. But it is law very largely which has given security loans the present prestige.

Senator BRISTOW. Ought they not to have that?

Prof. SPRAGUE. They ought not to have it, because the uses to which the proceeds of such loans are put, taking them as a whole, are not so important in the development of the agricultural and manufacturing interests, and the commerce of the country——

Senator BRISTOW. There is simply a difference of opinion about that, and of course it is presumptuous to put mine against yours, but I think that investment loans are just as important or more important than any other loans we have.

Prof. SPRAGUE. But the abundance of money available for short-time security loans puts the whole security market upon a very unsound foundation. If I have saved a certain amount of money and buy some steel stock——

Senator REED. Suppose instead of buying stock you buy a mortgage?

Prof. SPRAGUE. If I buy a mortgage, then I pay for it?

Senator BRISTOW. Yes.

Prof. SPRAGUE. That is one thing; but suppose instead of that I buy my mortgage and at the same time I buy an automobile. I must pay for my automobile, but I use my mortgage as a basis for a loan at a bank, for three months or six months. If a very large number of people are doing this, if a considerable part of the long-time obligations of the country, whether mortgages or stocks or bonds, is made the basis for short-time loans, these securities are not strongly held; they are largely held speculatively, and if it becomes necessary for the banks to liquidate, the price of these securities drops suddenly and the banks find it is impossible to liquidate.

Senator BRISTOW. If those securities are good—of course, that is to be presumed?

Prof. SPRAGUE. Yes; I understood that.

Senator BRISTOW. And this pressure comes for funds, why should not the banks take those securities to the Government and get the money to meet the emergency, as this Vreeland bill provides; and when the emergency is over why can they not get the securities back?

Prof. SPRAGUE. Securities have an almost indefinite capacity for rising in price in case you can secure banking accommodations. Take the case of loans made on good mixed stock exchange collateral, and assume that the average price of the securities is at par—a hundred—and that the banks have plenty of funds. The banks are making loans freely, let us say, at 3 per cent. They make loans to the amount of $80 upon these securities. The securities begin to advance in price because we can get loans upon them so readily. They go to $120. The banks now loan 80 per cent of 120, say, $96. They keep on moving up, and they go to $140 or $160, reaching a price wholly out of relation to the earning power of the properties represented which put out those securities.

Senator BRISTOW. If that is the great favor which commercial paper will receive from the enactment of this legislation, why should commercial paper be selected out to be favored in that way as against substantial investment secured by a mortgage? Why should not the mortgage on a man's farm or building, if it is properly made, have just as much consideration in legislation at this time?

Prof. SPRAGUE. I have answered that question before; I think the fluctuating part of the currency ought to be related to the business operations which occasion the fluctuation in demand. But another

reason is this, we should develop arrangements in this country by which the borrower on the mortgage can reach effectively distant investors. Such persons are not to be reached by means of credit banks, the business of which is primarily to make short-time loans. They can be reached in the case of agricultural mortgages, I believe, by a system of debenture banks of some sort, under which you will bunch together a great many mortgages or a great many farms and use them as the security for issues of debentures in sufficient amounts, say, that it is worth while to incur the expense of reaching the distant investor, of putting this very satisfactory sort of security before him. You can not expect to reach an investor in eastern Massachusetts with a $1,000 mortgage on a Kansas farm, but if you can bunch together 1,000 of such mortgages and use them as a basis for putting out $500,000 or $1,000,000 of debentures then you can reach the most distant investor; that is the proper method.

Senator BRISTOW. I think that is very desirable. And I agree with you as to that. But I can not see why you should, in fact, penalize investments of that kind, as this proposition does.

Prof. SPRAGUE. This bill will not penalize any investment except the security investments in the large cities, and it will not penalize them to any greater extent than they are penalized in all the European countries; it will simply put the boot a little upon the other leg.

The CHAIRMAN. If I understand it, Professor, you mean that when money can be readily available upon stocks and bonds it would permit a ready basis for a bull market that would have practically no limit if that should continue.

Prof. SPRAGUE. It would; that is the danger, and it has happened in the past. And one consequence is that the fluctuations in our stock market are far wider than they are in any of the European markets, and is wholly out of relation to the fluctuations in the earning power of the various corporations.

Senator BRISTOW. I have not any defense of the stock-market gambling by the banks that encourage it.

Senator REED. May I ask a question here that will save me asking a number later on? If I understand you, Professor, you hold that sound banking demands that banks do not loan my money upon ordinary industrial stocks, because the stocks are not stable and are liable to either go up or down to a very considerable extent?

Prof. SPRAGUE. Partly occasioned by the abundance of bank credit available for such loans.

Senator REED. Regardless of the reason, you hold that is not sound banking?

Prof. SPRAGUE. I would not wish to put it in that way exactly. I think a moderate amount of loans may with entire propriety be made upon such security. What I object to is that our present banking system tends to put an unduly large proportion of the available amount of bank credits——

Senator REED. Is that due to any law, or is that due to any practice of banking?

Prof. SPRAGUE. It is largely due to the law.

Senator REED. What phase of the law gives that advantage?

Prof. SPRAGUE. It is due to the tendency——

Senator REED. I am speaking of law and not tendency.

Prof. SPRAGUE. To the concentration of funds in New York City to an extent vastly beyond the commercial requirements of borrowers in New York City plus the nonspeculative security requirements of borrowers in New York City.

Senator REED. What feature of law operates to put the money there? Do you refer to the fact that New York City, St. Louis, and Chicago are the three general reserve cities of the country? Is that the phase of the law that you refer to?

Prof. SPRAGUE. Yes.

Senator REED. In other words now—so that I may clearly understand you—the ordinary bank of the country has to keep 6 per cent on reserve in its own vaults, and the bank in an ordinary city has to keep 12½ per cent of its own bonds. Over 12½ per cent it may send to New York, St. Louis, or Chicago?

Prof. SPRAGUE. Yes.

Senator REED. And when you get to New York or Chicago or St. Louis they keep 25 per cent in reserve; but they also have the reserves of these other banks—a portion of their reserves—deposited with them. Is that what you refer to under the law?

Prof. SPRAGUE. Yes; I would not wish to say, however, that that is the only factor.

Senator REED. We will say that the law permits that. The law does require the deposit of these reserves to be held by a bank in its own vaults; the law does not require the deposit of that in a reserve city. So that if it is sent to the reserve city it is sent not as a matter of law but as a matter of volition——

Prof. SPRAGUE. Under the law.

Senator REED. The banks do it because they are permitted to do it?

Prof. SPRAGUE. Yes.

Senator REED. Not because they are permitted to do it; they do it because they want to do it and are permitted to do it.

Prof. SPRAGUE. Yes; under the law.

Senator REED. The law does not prohibit it. Would you suggest that these deposits of surplus should not in the future be permitted to be sent to other banks?

Prof. SPRAGUE. No; because I believe there is a more effective means to accomplish the same result.

Senator REED. Now, regardless of the means; would you suggest that?

Prof. SPRAGUE. Not by prohibition.

Senator REED. Not by prohibition?

Prof. SPRAGUE. No; not by prohibition, which would be putting nothing in its place.

Senator REED. Let us not discuss the question of what you are going to put in its place. If it is a bad system and it has grown up because it is not prohibited then ought it not to be prohibited?

Prof. SPRAGUE. It is not so bad a system that it is desirable to root it up and put no system in its place.

Senator REED. Very well. The first step in the process would be to stop it. Now, then, we agree on that; that it ought to be stopped?

Prof. SPRAGUE. Yes.

Senator REED. Now, then, you propose to put something in lieu of it?

Prof. SPRAGUE. Yes.

Senator REED. I would like to ask you what that is.

Prof. SPRAGUE. I would set up an arrangement which would make something other than stock exchange loans the most liquid asset which banks can hold. The reason why commercial loans get a better rate in Europe than stock exchange loans is because banks like the Bank of England rediscount commercial paper at a lower rate than they rediscount the stock exchange security loans.

Senator REED. Of course, that involves a whole system. Going back to the question of prohibition, would this be of any benefit: To provide that no bank should loan money above a certain per cent of the then cash value of stocks and nothing above a certain per cent of the face value?

Prof. SPRAGUE. I am rather distrustful of such rigid restrictions. Offhand, I would not wish to express an opinion as to just how they would work, but it seems to me that it is ordinarily desirable to make it worth while, and desirable for people to do what is the most advantageous to the community, if that is possible, rather than to attempt to secure the same result by means of positive prohibitions.

Senator REED. If it is wrong, why not prohibit it and be done with it?

Prof. SPRAGUE. It is only wrong because of its excess.

Senator REED. I understand; but it is unsafe.

Prof. SPRAGUE. In excess it is unsafe.

Senator REED. Suppose we would say they should not loan more than a certain per cent of their money upon stocks?

Prof. SPRAGUE. You can not put it upon that basis, either. There are at times comparatively small commercial requirements, whereas there may be large issues of new securities being marketed by investment houses. It is very difficult to distinguish between the stock-exchange loan for speculative purposes and the loan which is made in connection with, say, marketing a new issue of telephone securities.

Senator REED. Is not that answer just equivalent to saying that, after all, you have to leave this to the banks? What you would like to do is to hold up some other system that would be so attractive that the attraction of that system would overcome the tendency of banks to go into improper speculation. Is not that about where we end on that proposition, and do we not end there without any real remedy?

Prof. SPRAGUE. I think it is a remedy. The banks in New York do not lend to the extent that they do lend on securities because they wish to foster speculation. They lend in that way partly because it is the easiest way to lend. It is much more easy to lend $1,000,000 on good stock-exchange collateral than it is to lend it to Smith and Jones and Robinson, one of whom is in the woolen business, another in boots and shoes, and the third in the flour business.

Senator REED. But they will just keep that up unless we prohibit it?

Prof. SPRAGUE. No. They will lessen stock-exchange loans if they find that the loans made to Jones and Smith can be converted quickly into cash—more quickly than the stock-exchange loan.

Senator REED. In other words, you say to a bank: "Now if you loan money to A, a merchant, you can go and have money issued by the Government on it, if you desire it; but if you loan it to B upon stock you can not use that stock for that purpose."

Prof. SPRAGUE. Exactly.

Senator REED. In other words, you would give a death blow to the value of stocks to that extent, just in proportion—that is a mixed metaphor. You can not speak of it as a proportion—just as your system approached the utter destruction of the value of stocks as securities it would be effective, and just in proportion as it did not approach it it would be noneffective?

Prof. SPRAGUE. No.

Senator REED. If the desire is to destroy these stock-exchange loans as a security, why not do it by direct means?

Prof. SPRAGUE. That is not the desire, to my mind.

Senator REED. If the object to be attained is to make it so that a bank will not borrow or loan on stock securities, why not do it by direction?

Prof. SPRAGUE. That is not the object at all.

Senator REED. But I understood you to say so. Let me understand your process of reasoning. Your first proposition is that it is dangerous for banks to loan their money upon industrial stocks?

Prof. SPRAGUE. No.

Senator REED (continuing). Unless they do it to a very limited extent.

Prof. SPRAGUE. And unless they do not regard these loans as their most liquid assets. If the banks will regard their stock exchange loans as a mode of tying up funds which they can not for the moment employ in other directions——

Senator REED. That is the reason you give, of course, but the amount of it is that you want to discourage the banks from loaning upon industrial stocks. That is what you want to accomplish.

Prof. SPRAGUE. To a moderate extent, yes; and to encourage commercial loans to a moderate extent.

Senator REED. But the object is to discourage the loans upon industrial stocks. That can be done of course by a prohibition, can it not?

Prof. SPRAGUE. That is entirely annihilating it, though.

Senator REED. That discourages it completely.

Prof. SPRAGUE. But I said to discourage moderately.

Senator REED. I know you said that you wished to discourage it moderately. Your method of discouraging that practice moderately is to give the note of the merchant a utility in the hands of a bank that is not given to the stock put up with that banker as collateral?

Prof. SPRAGUE. Exactly.

Senator REED. Now, just in proportion as you increase the advantages of the ordinary note of the merchant you discourage the loans upon stocks?

Prof. SPRAGUE. Yes.

Senator REED. If you desire to discourage loans upon stocks and do discourage loans upon stocks, you destroy one of the elements of value of the stock, do you not; and you force the price of the stock down. Is not that inevitable?

Prof. SPRAGUE. It depends a good deal upon the extent of the discouragement.

Senator REED. But I said to that extent. If you will notice my question I said to that extent.

Prof. SPRAGUE. Not necessarily.

Senator REED. For instance, I can go and buy 1,000 shares of steel stock, if I have the money, which no Senator is presumed to have. I put my money into that, first, because it pays an interest, and I regard it as a safe investment. I put it into it further for the reason that I can take that stock and go to a bank and borrow money upon it when I need it. Now, you take away my ability to borrow the money, and I will at once hesitate about buying the stock.

Prof. SPRAGUE. I do not take it away; I lessen it a little.

Senator REED. You lessen it?

Prof. SPRAGUE. Yes.

Senator REED. To the extent you lessen it, you impair to that same extent the value of the stock?

Prof. SPRAGUE. That is particularly true of speculative securities.

Senator REED. Without regard to whether they are speculative securities or not, it will inevitably beat down the value of anything, will it not?

Prof. SPRAGUE. I do not like to answer these questions without a little explanation upon my own part.

Senator REED. The trouble is that the explanation generally leads us away and we do not get anywhere if everything is qualified. We have to do something positive in this bill if we do anything. We have either got to stand still and do nothing or we have to enact a law that will do something. You can not give to a law all the fine and delicate shades of distinction that a skilled logician may make when he is talking across a table.

We have to do something. If you are going to make your law so that the banks will quit loaning their money on these stocks or so that they will only loan a quarter as much as they do now on that paper or half as much or three-quarters as much, we have to do something either to compel the banks to do that or to induce them to do it. The point I am dwelling on at this moment, and I dwell on nothing else, is whether that necessarily does not impair the value of all that kind of stock.

Prof. SPRAGUE. It is pretty certain to do so at the outset.

Senator REED. Will it not inevitably do so?

Prof. SPRAGUE. No; and for this reason: That in this country an inordinately large amount of stocks are held by weak holders on the basis of bank loans. With a system which tends in a moderate measure to discourage that kind of operation the tendency will be to lessen such speculative holding of securities; to lessen the fluctuations in securities on our markets; to make them more highly regarded by permanent investors both here and abroad.

It will, in other words, clean up the market rather better than is ordinarily the case in this country.

I believe that these consequences will offset some average decrease in the amount of security loans. Another thing that will probably happen is this: The stock exchange in this country is run in a way peculiar to itself, with daily settlements. The dealings are concluded day by day; the stock sold to-day is delivered to-morrow. Stock dealings in all other parts of the world are conducted on the basis of fortnightly settlements, a method which ties up very much

less bank credit than our method. I am of the opinion that if legislation such as is before us is passed the stock exchange will find that it will be obliged to adopt the European practice of fortnightly settlements, a change which will economize credits and which will perhaps lessen somewhat speculation.

Senator REED. Well, now, that is introducing an entirely different element.

Prof. SPRAGUE. It is impossible to answer questions such as you are asking without qualifying them somewhat. There are a great variety of ramifications in bills of this sort.

Senator REED. The trouble I find with your answers—I am speaking with great respect; I am not critical—is this—and I think I speak for most of us here—that you introduce every time some new element in the equation. The point we were considering was whether or not denying to the banks the right to loan money upon industrial securities, or creating a system that would make it undesirable for the banks to loan money upon industrial stocks, would not impair the utility of the stock and consequently its value?

You say that it would except for the fact that a stability would come to the stock market. In other words, if I understand you, as you limit the uses to which a thing can be put you increase its stability and thereby increase its value. Is not that the hole we come out of?

Prof. SPRAGUE. As you limit the fluctuating supply of credit for stock-exchange dealings you will tend to make the prices more stable. It is largely because at one time in the year you may have $200,000,000 or $300,000,000 more available for stock-exchange operations than at another time of the year.

Senator REED. Would not it be a pretty good idea to wipe out the stock exchange and all speculation?

Prof. SPRAGUE. No.

Senator REED. Why not? We would stop the speculation entirely and then you would have nothing but stability.

Prof. SPRAGUE. A certain amount of speculation is desirable.

Senator REED. That is, a little gambling is a stimulus to enterprise.

Prof. SPRAGUE. Enterprise is tinctured with gambling.

Senator REED. Well, I will not follow the subject further.

The CHAIRMAN. I would like to have appear in the record at this point this suggestion: That the 25,000 banks in the country are naturally and necessarily apportioning their assets in the form of cash, which is entirely and immediately liquid; in open accounts with reserve agents, which except in times of panic is immediately liquid; in short time, quickly maturing commercial paper against actual commercial transactions, which is supposed to be collectible out of the pockets of the people promptly and therefore will serve as a liquid asset from the reservoir of money in the pockets of the people; and, finally, in the longer-time loans sometimes based upon investment securities which in normal times are not difficult of conversion; sometimes in investment loans to clients which are intended to be carried along from season to season as a loan expected to be worked out after several years. Many banks carry loans of this character and in that way convert their securities into substantial investments. These reserve banks are intended to make immediately mobile the commercial paper against actual commercial transactions.

Senator BRISTOW. I want to ask one more question, if I may, and it is in line with the inquiries by Senator Reed. What effect would it have on this undue accumulation of funds in New York if we reduced the reserve required of country banks to 6 per cent? Will they loan their additional money at home instead of sending it to New York?

Prof. SPRAGUE. We find that in fact country banks do not, throughout the country, lend at home all that they might be permitted to lend and still keep within reserve requirements. Many of them lend outside their own localities by purchases of commercial paper, or by direct loans in New York, or by surplus balances with reserve agents. I should expect, however, that after the reduction in reserve requirements they would lend a little more at home than they now do; but I should expect that they would continue to deposit very largely with city banks.

Senator BRISTOW. They do that because they fear that in an emergency they might need those funds and they place the funds on deposit there in order to have the money if needed?

Prof. SPRAGUE. A bank can seldom insist upon payment of loans made to its own solvent depositors merely because it would like to gather in some funds. Its own clientele expects to be taken care of right along. Largely the amount of loans made to its clientele is by arrangement at the beginning of the year under lines of credit. A bank needs to have some resources which it can call in without disturbing any of its regular patrons, and it regards balances with outside banks or purchases of commercial paper of firms at a distance as resources which it can call in if it needs additional funds. A well-conducted bank, therefore, in the country would not in any circumstances lend all but 6 per cent of its resources to people in the immediate vicinity.

Senator REED. So that it will still continue, notwithstanding the change we might make with reference to the amount of reserves, to deposit a considerable portion of its cash in other banks, and for the reason you have just stated?

Prof. SPRAGUE. Yes; but with these Federal reserve banks established and in good working order I should expect that the local bank would feel that it could then loan a rather large percentage of its funds right at home. This it would prefer to do, because anything that develops its own locality is a direct advantage to its own business, and if it can take this paper to the Federal reserve bank and get it rediscounted, that is all it wants.

Senator BRISTOW. Suppose that it could take good securities to the Government—to a subtreasury somewhere—and get the cash from the Government that it needed, would not the disposition then be to loan the money at home instead of to keep a reservoir somewhere else?

Prof. SPRAGUE. The disposition then would probably be to do that and to invest in local securities such as county bonds; but it seems to me that from the local point of view that is rather undesirable, for county bonds now find a market with distant investors. You have tapped the sources of cheap money for that kind of security, but you have not and you are not able under our system to tap outside sources for loans—short-time loans to the local merchant and the farmer and the manufacturer.

Senator BRISTOW. But suppose a mortgage was available as well as bonds?

Prof. SPRAGUE. I think you can reach that result very much better through the debenture banking method that I spoke of a moment ago.

Senator BRISTOW. But we have not that proposition before us.

Prof. SPRAGUE. I thought it possibly would come before you in the future. If there was no better means of getting capital for mortgages it would be distinctly unfair to the farmer to exclude the mortgage; but even this bill contains arrangements for savings departments, which will probably increase somewhat the demand for mortgages.

Senator BRISTOW. It will never be used in any of the small towns, of course.

Prof. SPRAGUE. I think that the only feasible means is some arrangement for debentures which would I believe tend to reduce the mortgage rate in many parts of this country by 1 or 2 per cent at least.

Senator BRISTOW. Of course, you will understand that I am an amateur in any discussion of this kind; but I can not understand why mortgages on property conservatively made are not as good a basis upon which to establish a temporary currency as a man's note without the mortgage, but who owns the property.

Prof. SPRAGUE. The reason is not one of safety. It is partly because there is so much in the way of lands and of mortgages, and the amounts loaned on mortgages have no connection with changes in the requirements for the use of currency. There are good safe mortgages—enough to furnish security for billions of additional currency, but it would not be desirable to have those billions of additional currency issued. It would simply inflate prices and cause most undesirable results.

This other kind of security is rather more limited in amount——

Senator REED. You use the phrase "rather more." How much of it is outstanding?

Prof. SPRAGUE. Oh, it is impossible to say. I used that expression advisedly, "rather more." There is a danger.

Senator REED. If we issued currency on all the commercial paper—if we issued a dollar of currency for every dollar of commercial paper there is in this country—we would have an inflation such as has never been dreamed of in any country in the world.

Prof. SPRAGUE. I heartily concur with what you say there, and it suggests to me that this is a good place to enter a criticism of the opinion which has been expressed here by bankers, that there is some automatic means of keeping the currency within safe limits if you tie it up with commercial paper. There is no such automatic safety valve as that.

Senator REED. I am glad to hear somebody say something that has been perfectly patent on the face of these hearings from the beginning. If that is true, Professor, it is perfectly manifest that the safety limit—the point of safety—has got to be fixed by something other than the volume of commercial paper. It has got to be fixed by a law, or by a board, or by some governing power. Is not that true?

Prof. SPRAGUE. Yes. That is one of my reasons for having said at the very beginning this morning that the problems which will

confront the management of these Federal banks are novel and exceedingly complicated. To know whether the amount of credits granted by rediscount is getting beyond safe bounds will require very great judgment, indeed, and they will not be able to determine the matter in any automatic way whatever.

ADDITIONAL STATEMENT OF PROF. O. M. W. SPRAGUE.

[Proceedings of Sept. 17, 1913.]

Senator SHAFROTH. Would you prefer, Prof. Sprague, to go now?

Prof. SPRAGUE. I would.

The CHAIRMAN. He has been very patient about waiting here, and I do think we should give him an opportunity to conclude.

Senator SHAFROTH. Mr. Berry is here, and he is compelled to leave to-night.

Mr. WILLIAM H. BERRY. Yes, I have to leave to-night, but I am in no hurry to leave.

The CHAIRMAN. Prof. Sprague would like to have the opportunity of making his statement without interruption.

Senator POMERENE. I think he should have that privilege.

The CHAIRMAN. And then he will be willing to answer any questions. He has been interrupted so much that he has been unable to make any coherent suggestions in regard to the bill.

Senator POMERENE. That is the purpose I had in mind in making the motion I did when our hearings commenced. Let him make his statement, and after he is through we can ask him questions based upon memoranda we have made as he proceeds with his consecutive statement and it will be of greater advantage to the committee when they take this up in executive session.

Senator REED. Mr. Chairman, while you are making these precautionary suggestions, I venture to remark that Senator Bristow is out of the room.

The CHAIRMAN. Senator Bristow is to be invited back when Prof. Sprague resumes his statement, and I will now send word to him.

(At this point Senator Bristow returned to the hearing room.)

Prof. SPRAGUE. My statement regarding the sections in the bill having to do with the issue of notes appears in such scrappy form in the hearings of yesterday, being interrupted by questions, that I should like to first summarize my opinion on that part of the bill.

I think it undesirable that the outstanding circulation of the national banks should be transferred to Federal reserve banks unless some change is made regarding the requirements for security of the notes issued by those banks. The national-bank notes might be left where they are. The issue might be continued by the individual banks, and that would not seriously affect the workability of this measure. They might conceivably be transferred to the Government—issued by the Government and redeemed by the Government—and under proper safeguards that would be entirely feasible and would not affect one way or another the effectiveness of this measure.

If, however, it is decided that the Federal reserve banks should issue the outstanding national-bank circulation, then some other form of security should be devised for at least that amount of notes, and I suggested yesterday that the same security be held for that

amount of issue as is now held by the national banks, namely, Government bonds, but that the rate of interest on the bonds be raised to 3 per cent, the notes to be taxed 1½ per cent, and that a portion of the bonds be changed into one-year notes to give the Federal banks a readily marketable security, as a means of securing control of the market. That would be my suggestion regarding this matter, in case the Federal reserve banks are to issue the outstanding circulation of the national banks now or later.

The present provisions of the bill in this respect are unsatisfactory, also, because they increase the interest burden upon the Government, and because they are not entirely fair to the banks. There would probably, under the arrangements for transferring the note issue and for refunding the bonds, be some fall in the price of the bonds which the banks now hold as security. I do not think that the banks should be required to suffer any loss on account of the 2 per cent bonds which they have purchased in order to take out circulation. If it is deemed advisable not to turn the issue of the national banks over to the Federal reserve banks, then some other arrangement can doubtless be devised which will be entirely fair to the banks and which will place the $700,000,000 of notes upon a sound foundation; but as I am confining myself to the provisions of this bill I will not at this moment enter upon a discussion of any arrangements which do not presuppose taking over the notes by the Federal reserve banks.

I now turn to a second proposal, designed to make this measure on the purely banking side somewhat more workable. It has to do with the provisions in the bill regarding the rearrangement of reserves. I think that the principle embodied in this bill of transferring a considerable portion of the deposited reserves of the banks from reserve and central reserve city banks to these Federal reserve banks is entirely sound. But I am inclined to think that the bill goes somewhat too far in this respect. It transfers all of the reserve balances of reserve city banks deposited in central reserve city banks to the Federal reserve banks, and that seems to me entirely wise.

It also does the same with the balances of country banks; and here in my opinion the bill goes too far. My reason is not because I think it particularly necessary to give reserve agent banks these country bank balances. It is rather from the point of view of the country banker that I am looking at this problem. The country bank does not ordinarily have a very large volume of assets of the kind that will meet the rediscount provisions in this bill. Properly, those rediscounting provisions are drawn with care to limit the operations of the Federal reserve banks to paper maturing within short periods of time, and which can ordinarily be liquidated readily.

Reserve agent banks can lend with much more freedom to country banks than can these Federal reserve banks. Doubtless relationships will continue between city and country banks, even if this bill is passed in its present form. But I am convinced that the accommodation which the country banker can secure from city banks will be somewhat greater if the city banks hold a moderate portion of the reserves of the country banks. I am in favor, therefore, of leaving it optional with the country banker to hold the last 4 per cent of his requirements either in vault in a Federal reserve bank or with properly qualified reserve agents in the reserve cities. An arrangement of this sort will be apt to lessen materially the

number of applications made for accommodation from the Federal reserve banks, and will be helpful to the management of those institutions for that reason. But, primarily, my ground for taking this position is that it will give the country banker two strings to his bow, put him in better condition to meet all requirements that come upon him from his local clientele. It may be added that this change would doubtless make the bill a bit more attractive to the banks in general, but that is not the fundamental reason for advocacy of this change in the bill.

I now turn to changes designed to secure more satisfactory management and greater publicity. Bankers have appeared before this committee desiring representation upon the Federal reserve board. I am not going to waste time urging a modification of that sort. I do think, however, that it is most undesirable that a majority of the board should be reconstituted at the very beginning of a presidential term or, indeed, at any one time. By making the end of the term of Comptroller of the Currency come in the second year of a presidential term this difficulty would be met. I think, moreover, that the bill should be modified in another direction with results which should be all that the banking fraternity can reasonably demand, and with results which will be to my mind helpful in securing efficient management for the proposed institution.

The bill provides for an advisory council, which shall meet four times a year, but it does not provide any means for giving members of the advisory council regular, continuous information regarding the policy of action of the Federal reserve board. I would urge that the chairman of the advisory council, or, in his absence, its vice chairman, be given a seat on the Federal reserve board, without a vote. This would put him in a position to know what is being done on the board. It would enable him to know at any time whether it was desirable to call his advisory council together to offer advice or to formulate criticism of the management of the policy of the Federal reserve board. A change of this sort in the measure would simply give effective publicity, and that is about all that the bankers would secure through minority representation on the board itself.

I turn now to the management of the separate reserve banks. It is only the management of the Federal reserve banks that will make loans—the Federal reserve board is authorized to make no loans. Whatever its policies, however ill-advised it might conceivably be, the Federal reserve board could not dissipate the resources intrusted by the Government and by the banks to the Federal reserve banks. If losses are incurred it will be entirely owing to faulty management of the reserve banks.

I do not think in the public discussions of this bill that this point has been given proper emphasis. Many have criticized the proposal, apparently on the assumption that the Federal reserve board itself might dissipate the assets intrusted by the banks to these institutions. I attach very great importance—indeed, fundamental importance, I may say—to the character of the management of the Federal reserve banks distinguished from the Federal reserve board. The provisions in the bill regarding the selection of the directorates of the Federal reserve banks seem to me entirely satisfactory, with one exception. I refer to the class B directors, who are to fairly represent agricultural, commercial, and manufacturing interests. The

bill provides that the Federal reserve board may at any time remove this class of directors if they do not seem to fairly represent these interests. In other words, there is a string attached to this group of directors throughout their incumbency of the office. The Federal reserve board should, in my opinion, be empowered to approve or disapprove of the men selected to fill these positions, but after they have been approved that should be the end of it so far as their term of office is concerned, just as is the case with Government officials whose appointment involves the advice and consent of the Senate.

The bill is also slightly obscure regarding the functions of the chairmen of the boards of the Federal reserve banks. Whether they are to be the chief executive officers of these regional banks or not is not clear. Apparently the chairman is simply to be a presiding officer, and the chief executive officer is to be selected by the board of directors. That, in my opinion, is the proper arrangement, but whatever the arrangement is to be, it should be more clearly indicated in the bill than is the case at the present time.

I am now going to turn to the question of the proper number of reserve associations, and I would relate the discussion of this subject to what I have said at various times during these hearings regarding the novel and complicated problems which will have to be solved largely by the managers of the various reserve banks and of course also by the Federal reserve board. It is a matter which should be given careful consideration, whether it is entirely feasible to secure a satisfactory management at the outset for as many as 12 of these regional associations. I am inclined to think that a satisfactory management would be a little more certain in case the number of regional banks were somewhat less. This is a matter which can be in part determined by the organizing committee. It is one reason for giving the organizing committee a little latitude in the number of regional banks which should be established; and then there is another reason of a practical sort: It is not certain that all of the banks will come in. I believe that most of them will come in, but the whole scheme could be more easily upset by recalcitrant bankers if the organizing board must set up 12 reserve banks than would be the case if this organizing board has some latitude in the matter. Give the organizing board, for example, the power to establish not less than whatever number you think must be made—say 7, if you like, or 8, and not more than 12—and you have one of the impediments removed to setting up this machinery.

It is quite conceivable, for instance, that in order to make 12 regional banks it might be necessary to split up New York City into two in order to meet the absolute requirements of the bill.

Assuming that a satisfactory management can be secured for the various regional banks, I do not regard it as absolutely essential that their number shall be 5, 8, or even 12. In some respects doubtless the machinery could be handled more easily with 5 than with 12, but I see no compelling reason for holding that if 5 institutions of this kind will serve a useful purpose that 12 can also serve a useful purpose. It is largely, to my mind, a question of the kind of management you can get, and whether the choice of the directors for the regional reserve banks will be as satisfactory if each institution covers a comparatively small area as it would be if it covered a somewhat wider area.

Some of the modifications which I have so far touched upon would doubtless make the measure a little more attractive to the banks, and that the measure should be made as attractive to the banks so far as is consistent with securing the purposes in view seems to me to go without saying. An added reason for taking this position is the coercive feature of the bill. I consider that it is entirely proper that this bill should contain provisions which put a little compulsion upon the banks to come into the system. This is because the success of the system requires or presupposes that at least a very considerable number of the national banks come in. Bankers are properly a rather cautious body of men. We would not wish to have our banks conducted by the most speculatively inclined portion of the community. Many bankers in the absence of any slight compulsory feature in the bill, however satisfactory the bill may be, will be apt to delay coming in, would be apt to allow the machinery to be established by others, waiting themselves to see how it would work. A moderate measure of compulsion, therefore, seems to me to be entirely proper, in the interest of securing any sort of legislation of this kind. But, that being the case, the system into which the banks are to be gently forced should be quite fair to the banks, at least so far as is consistent with the purposes in view. It does not seem to me that this bill should contain provisions which would in fact or even apparently lessen the earning power of the banks, unless those provisions are essential to the working of the proposed scheme. I therefore venture to suggest a few additional modifications, which would, so far as I can see, have no appreciable effect upon the character of the management or upon the working of the machinery to be established.

The first of these proposals is a reduction in the subscription to the capital from 20 to 10 per cent of the capital of subscribing banks. The capital of an ordinary bank serves two purposes. It gives confidence in the institution; it makes certain that those conducting it have something at stake, and, in the second place, it is a margin of safety against loss. These proposed Federal reserve banks, however, are only to do business with the banks; they are only to do business with the institutions who are to provide the capital, and who are also to provide a large portion of its other funds. If these people who are to do business with the reserve banks are entirely satisfied with 10 per cent rather than the 20 per cent capital, the ground for a large capitalization, as a means of inspiring confidence disappears.

Second, as regards the margin of safety, the reserve banks are so tied up as regards the character of the loans which they may make that there is exceedingly little danger of any appreciable loss being made; that in any year the losses incurred would approach current income seems to me to be wholly unlikely. None of the grounds therefore for large capital which are present in the case of ordinary banks appear when we consider this special class of institutions.

The European central banks, with hardly an exception, conduct none of their banking operations with funds secured from their shareholders. In all instances, so far as I recall, these various European banks in securing their charters or renewals of charters, have been obliged to invest in the securities of their Governments, or to make special loans to their Governments, which have absorbed their entire capital and often more than their entire capital. They conduct their banking business with the funds which they have cur-

rently secured from depositors, chiefly banking depositors. Similarly these Federal reserve institutions would have ample funds from the Government deposits and the balances placed with them by the other banks.

It may further be noted that as the Government is very largely the residuary of profits, that the smaller the capital the larger the return which will come to the Government from the operations of these institutions. I think that if the banks are required to put in an amount equal to 5 per cent of their own capital and another 5 per cent remains on call as an obligation, these banks will have quite sufficient capital for any conceivable purpose. After all, $10,000,000 secured by bank subscriptions to capital is no more a basis for the operations of these institutions than an equal amount secured either from the Government as deposits or from the banks as balances. After a bank gets its funds, there they are, and the extent of its operations is determined by the amount of the funds and the source of the funds is a negligible factor.

In most parts of the country 6 per cent is a very common rate for bank loans. The country banker, in particular, feels disinclined to invest his capital in this institution on a 5 per cent basis. As a means of meeting this objection, the bill was modified after its first introduction, and provision was made for giving the shareholders 40 per cent of the surplus earnings, 60 per cent going to the Government, the distribution being made on the basis of the balances carried by the various banks with their Federal reserve bank.

I dislike this method of giving the banks a somewhat larger share in the earnings of these institutions, for the reason that it may tempt the management of the reserve banks to handle them so as to earn a large income. Now, these institutions should not be handled primarily or even appreciably for the purpose of making profits. If they are so handled, they will not serve some of the purposes for which they are to be set up.

Take, for example, a case like that of the Bank of England at the present time, with a reserve approaching 60 per cent, brought up to that level because the situation in the immediate future is somewhat confused and because there may be very heavy demands upon that institution. Clearly if the Bank of England were run very largely for the purpose of getting the largest possible profit it would make a considerable amount of loans now and would not maintain these high reserves. I think that a definite dividend to the shareholders is a very much better arrangement than anything which gives them a right to a share in surplus earnings. I think that it would be far better to raise the rate of the return to 6 per cent and drop out this provision that 40 per cent should go to the banks. Then all over and above 6 per cent on the shares would go to the Government, and I am firmly of the opinion that in the long run the Government would get vastly more out of these institutions than it will if the measure is passed containing its present provisions regarding the disposition of earnings.

One more change I will venture to outline regarding capital, although it is a suggestion which I make with some little hesitation. It would probably be regarded as more satisfactory by the banks if, in subscribing to the capital stock of these Federal reserve banks, they became subscribers to the capital stock of the entire group of

Federal reserve banks. If this were to be done, it need not change and should not change in the slightest degree the method of selecting the directors of Federal reserve banks. The Boston bank, for instance, subscribing, would have a vote only in choosing the directors of the Federal reserve bank of Boston, and similarly with a bank in New York or San Francisco or elsewhere. The dividend would be then somewhat more secure, for the dividends would be on a sort of cooperative basis. It might very well happen that the regional bank in New England would not earn enough to pay its dividend in a given year; while the regional bank in Chicago might in the same year be earning much more than enough to pay 6 per cent upon its shares.

Under the plan that I have been outlining, the total profits of all the reserve banks would be available for paying the limited dividend upon the shares owned by all of the banks. It would simply be a change which would make a little more certain that in all years 6 or 5 per cent would be paid to the shareholders.

I have now finished the suggestions for changes that I wished to bring before the committee. It will be observed that they do not cover very many points in this bill. The larger portion of the bill seems to me to be entirely satisfactory, and in many respects superior to other measures which have been brought forward during the last three or four years.

The rediscounting features seem to me to be entirely satisfactory, calculated to give commercial loans a better rate than security loans, because commercial loans will become more liquid. The bill is entirely satisfactory, to my way of thinking, in confining the use of acceptances to foreign dealings. It is in the foreign trade that the acceptance is generally in use. It is an unfamiliar method of granting credit in this country, and to grant the right to accept to banks in connection with purely domestic transactions would not, to my mind, serve any good purpose, and it might very well result in serious abuse.

The provisions in this bill regarding the making of short-time loans to farmers on lands, as security, would seem to me to go about as far as it is wise to go in facilitating increased accommodation to farmers through credit banks.

It is impossible to go further, not because mortgages, taken as a class, are a less safe form of security than commercial paper, and not because mortgage loans are less liquid than commercial paper in emergencies. In emergencies nothing is liquid, and extensive liquidation should not be attempted. The purpose of this bill is to set up institutions which will make it unnecessary at any time in the future to resort to drastic, wholesale liquidation, which always fails and which cannot be carried through. But there is a reason why mortgaged loans in large quantities are not satisfactory security for credit banks and the reason has to do with the situation of the individual bank in ordinary times. In ordinary times any one or small number of banks that for any reason get into trouble can quickly liquidate commercial loans. They mature soon, and they are an asset which other banks may be willing to take, so as to give the few banks that are in trouble the necessary funds.

Mortgages can not be quickly converted, and the individual bank which gets into trouble finds it ordinarily exceedingly difficult to raise

money quickly from other lenders on the basis of its mortgages; and of course its mortgages do not mature within a short period. It can not get any funds by simply doing no more new business.

Senator BRISTOW. Professor, I should like to ask you a question right there.

The CHAIRMAN. Well, Senator, we agreed to let the Professor finish and then cross-question him at length.

Senator BRISTOW. I thought he was through.

Prof. SPRAGUE. That would be my reason for differentiating between the mortgage loan and the commercial paper; not because, taken as a whole, mortgages are less liquid than the commercial paper.

Another entirely satisfactory feature of this bill, to my way of thinking, is the provision for savings-bank departments. Over a large part of this country there are no mutual savings banks and it does not seem likely that they will be developed in the near future. Indeed, in sparsely settled or purely agricultural sections of the country there is not room for the two classes of banks. The business is, in fact, combined with ordinary banking, but it is desirable that the funds of small savers should incur the same risk of loss to which deposits of the ordinary business man are subject. The business man is in better position to choose a bank and to withdraw his account in case he thinks that anything is unsatisfactory. The savings depositor should be given especial protection. His funds should be more carefully safeguarded than those of the ordinary checking depositor. I believe that the demand for the guarantee of deposits which sprang up in the West a few years ago was largely due to the fact that in that part of the country savings deposits and other deposits are indiscriminately mixed together and invested in one mass of assets.

The provision regarding the foreign banking in this bill seems to be entirely adequate.

Finally, I mention as further excellencies in the bill the simplicity of its organization. Contrasted, for example, with the bill of the National Monetary Commission, this bill in its method of choosing the management is vastly superior. It is, furthermore, superior to the bill of the National Monetary Commission in that it does not in any case impose upon banks the burden of guaranteeing loans made by other banks with these institutions to be established.

Much criticism is made of this bill because of an excess of Government influence in its management. Without characterizing the bill of the National Monetary Commission, it does seem to me that from the point of view of the banks it should be a very large offset that this bill does not obligate them in any case to guarantee the loans which other banks are to secure from the Federal reserve institutions.

The banks can not lose any of the funds which they intrust to these institutions unless they themselves choose incompetent persons to make up the majority of the boards of the Federal reserve banks. And if the banks can not lose any money from the working of these institutions, the question of Government against banking control of the central board narrows itself down to this: Will the general policy adopted be wiser if there is a Government board than if it is a board largely selected by bankers?

But even if the central board is unwise and incompetent it can not involve the disposition of the assets intrusted to these Federal reserve banks by the Government and by the banks.

Senator REED. Why not?

Prof. SPRAGUE. Because the central board can not lend any money It can simply say that the rate of discount shall be 12 per cent instead of 7.

Senator REED. You are speaking of the central board, are you not?

Prof. SPRAGUE. Yes; I am speaking of the central board. The six out of the nine members of each Federal reserve bank board are chosen by bankers, and if they choose incompetent persons and the assets are dissipated they will then only have themselves to thank.

Senator REED. I understand; I thought your last remark amounted to a statement that even if you had this management of regional reserve banks the assets would not be dissipated. I understand your proposition now. I thought you spoke of the other banks.

Senator BRISTOW. I understood you to say that the reason it was not desirable to have farm loans—real estate mortgages—as the basis for this currency was that they could not be realized upon so rapidly.

Prof. SPRAGUE. I referred rather to the provision in the bill permitting individual banks to make a moderate amount of 12-month loans on the basis of mortgage security. I was not referring at all to the Federal reserve banks or to the issuing of currency. I was trying to indicate why, to my way of thinking, considerable long-time investments for banks whose obligations are payable on demand are undesirable.

Senator BRISTOW. Do you see any objection to making mortgages the basis for the issuing of currency to these banks?

Prof. SPRAGUE. Yes. At the present time there is no satisfactory machinery in this country for marketing mortgages or securities based upon mortgages. If, for example, the States would establish debenture institutions—rural banks with a State bank at the head—which could put out debentures against mortgage loans and get in touch with the financial markets, then I should say that these State institutions would become satisfactory borrowers at these Federal reserve banks.

Senator BRISTOW. It is contemplated that the Government will have to collect this money—realize on these securities. Do you contemplate that?

Prof. SPRAGUE. Referring to this debenture arrangement?

Senator BRISTOW. No. That is a thing that we can not consider here at all. It is an impossibility to imagine anything like that. We have no control over the States.

The purpose of this legislation mainly is to insure a more elastic currency, so we have been told, and to do that an emergency currency is provided for, so that when the banks need it they can get it, and they get it by putting up this security, and it is limited to commercial paper that matures in a certain time. Why does the Government want paper that matures within 45 and 60 days as a security for this currency?

Prof. SPRAGUE. The reasons are involved. An adequate answer involving the whole range of banking operations must be taken into consideration. Perhaps I can put it shortly in this way: The restriction of the security to commercial paper is not because commer-

cial paper is a safer asset than some other kinds of security. It is not a safer asset than the best of farm loans or the best of real-estate loans in cities, nor the best of bonds issued by certain corporations. It is not, therefore, on the ground of safety that there is any reason for picking out commercial paper rather than something else.

Commercial paper, is, however, preferable, because, so far as the individual bank is concerned, it will be able, in ordinary times, to liquidate its commercial paper to meet its obligations with the Federal reserve banks more readily than would ordinarily be the case with other kinds of security.

Suppose that our Federal reserve bank rediscounts for a member bank notes which are good but slow. Suppose, for example, it rediscounts a note based upon the security of some New York City block. The proceeds of the loan have not presumably been put into any transaction which will be completed during the life of the loan. If it is commercial paper in the true sense and you have borrowed, say, for four months' time presumably you are employing the proceeds of that loan in a transaction which will be completed within the four months, so that in a sense the loan will pay for itself.

The transaction in connection with which you used the proceeds of the loan will pay for it. In this case the bank that used this commercial paper will be paid, and it can meet its rediscount obligations. If, however, you open the door to rediscounts based upon bonds and other things, individual banks will have their funds tied up in long-time operations and consequently will require continuous rediscounts with the Federal reserve banks.

Senator BRISTOW. Well, the objection, as I understand it, that you offer is that the farm mortgage runs for a long time—it does not become due—and that you expect the notes that are put up as security to be paid within a short time. Is not that a thing for the bank to take into consideration in making its loans?

If that bank has mortgages that are better as a rule than ordinary notes of hand, why should not that be made the basis for the currency? The note that is put up as security for the currency does not necessarily have to be paid in order to enable the bank to meet the bill. Let it keep its 90 day paper or 30 day paper in its vaults, in the regular way as it does, and retire the currency. The only thing that will retire this emergency currency is the tax on it anyway. It will not be retired at all unless it is taxed.

Prof. SPRAGUE. It will be retired if we have a competent management for these institutions. If, as was assumed yesterday, these institutions are so managed that they get down to a 33⅓ basis just as far as they possibly can these institutions will not do us any good at all.

Senator BRISTOW. You can not get any Government board to contract a currency. It will not do it, because it would be a very unpopular thing, and it will never be done, in my judgment. You may theorize all you please, but as a practical matter it will not be done. You can expand, of course, but you will never contract.

Prof. SPRAGUE. That is the danger of this institution, whether it is handled by a group of people appointed by Government authority or appointed by the banks.

Senator BRISTOW. The only thing that will retire these notes is a tax that will make it unprofitable to keep them out to the bankers who are using them.

Prof. SPRAGUE. But that will not necessarily prevent overexpansion on the part of these institutions, because after these institutions are set up you will find that the demand for notes will be vastly lessened. You will find that the banks will make settlements between each other on the books of these Federal reserve banks, and that what they will chiefly want will be additional deposit accounts against which they can check. When the Bank of England makes additional loans and the banks need additional funds what they want is almost never currency; what they want is additional deposits at the Bank of England; and the same will be largely the case in this country in the operations of these institutions, and if they get down to anything approaching the minimum of their reserve in ordinary times they will be able to help us but slightly in an emergency.

I have repeated this warning over and over again in these hearings, because I have observed that very few people in the discussion of this subject during the last three or four years have dwelt upon it at all. Most persons in urging some such measure as this have dwelt almost exclusively upon its power to expand credits when there was a need, and have said almost nothing about the necessity of such an institution if it is to expand when there is need also of being in position to contract a little or to restrain long before emergencies come upon us. We should have, according to the theory of some people who have discussed this measure, something a most similar to a United States Treasury with an indefinite amount of funds ready to pay them out to the banks whenever the banks ask for them. That would be a most unhealthful condition of affairs. We have had something approaching it during certain administrations of the Treasury Department when there has been a large surplus, with the result that the bankers have felt no appreciable responsibility for maintaining the credit structure and have expanded credit to a dangerously rapid extent. If the managers of these institutions, including the Federal reserve board, are not conservative men, the results of setting these institutions at work will be disastrous.

Senator BRISTOW. If any of you financiers and experts think any administration will set about deliberately to contract the currency for the purpose of giving business more stability, you are pursuing a dream. It will not be done; there would be a protest made here from which they would all shrink.

Prof. SPRAGUE. I think you will find that the responsibilities which will rest upon the Federal reserve board will be very obvious and so heavy that they will almost in spite of themselves take the conservative point of view. At any rate I feel certain that after one experience with the consequences of over liberal granting of credits in periods of active business, we shall settle down to a proper understanding of the proper functions of such institutions as is proposed by this measure. That was the case in the history of the Bank of England. For years there was no proper conception on the part of the directors of that institution of its duties, and it took a succession of crises to make clear both to the officials of the bank and to the general public the proper functions of that great institution.

Senator BRISTOW. We have a pretty good system here now, except that it is not flexible enough. Why should we change it?

Prof. SPRAGUE. That is not the trouble with it—that it is not flexible. Consider the situation from 1897 to 1907. The total amount of currency in this country increased by about 40 per cent during that period of time.

Senator BRISTOW. Well, that did not hurt anybody; that was a very prosperous and desirable period.

Prof. SPRAGUE. But at the end of it we landed in the panic of 1907.

Senator BRISTOW. The panic of 1907 would have been avoided if these New York banks had not loaned on securities that were not good; if they had not loaned money for speculative purposes. When the water was squeezed they had to liquidate; they had to foreclose and they could not get their money and the country people who had their money there in New York could not get their money. If these banks could have gone to the Government and got relief, temporary relief, the panic of 1907 never would have come.

Prof. SPRAGUE. Yes; it would. It might have come in 1908. The situation would have become very much worse if they could have got additional credit at that time.

I have two more matters which I will put into the record if the committee desires. Senator Shafroth asked me to go over his bill and give him an opinion on it. I was also asked by Senator Bristow to express an opinion about the possibilities of the Aldrich-Vreeland bill.

The CHAIRMAN. We will be glad to have you do so.

I would like to ask the consent of the committee just here to put into the record the interest tables of the five reserve banks of Europe. The matter is explained in great detail and is a very valuable compilation which I think ought to be before the committee.

(The tables mentioned by the chairman are as follows:)

Bank of England.

ISSUE DEPARTMENT.

LIABILITIES.		ASSETS.	
Notes issued	£51,241,210	Government debt	£11,015,100
		Other securities	7,434,900
		Gold coin and bullion	32,791,210
	51,241,210		51,241,210

BANKING DEPARTMENT.

Proprietors' capital	£14,553,000	Government securities	£17,507,945
Rest	3,360,154	Other securities	36,211,089
Public deposits (including exchequer, savings banks, commissioners of national debt, and dividend accounts)	9,936,777	Notes	22,375,490
		Gold and silver coin	912,633
Other deposits	49,139,180		
7-day and other bills	18,046		
	77,007,157		77,007,157

J. G. NAIRNE, *Chief Cashier.*

Dated January 6, 1910.
The above is the statement as it appears in the weekly returns.

BALANCE SHEET, JAN. 6, 1910.

[Arranged so that it corresponds in form with the balance sheets of the other banks given here.]

LIABILITIES.		ASSETS.	
Capital and rest	£17,913,154	Gold coin and bullion and silver coin	£33,703,843
Notes in circulation	28,865,720	Government securities in both departments	28,523,045
7-day and other bills	18,046	Other securities	43,654,989
Public deposits	9,936,777		
Other deposits	49,139,180		
	105,872,877		105,872,877

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

It will thus be observed that the note issues are covered by 62.7 per cent gold. That the public and private deposits are covered in the banking department by 38.3 per cent of notes and coin, nearly all such reserve being in notes, which, measured by actual gold, would make a gold reserve of only about 25 per cent against the deposits.

It will be observed under the tables of interest rates that this narrow margin has been supplemented by frequent changes of the rate of interest to attract gold from other countries when English commerce requires gold, and it would also appear that in 1847, 1857, and 1867 the Bank of England was permitted to issue legal-tender notes against commercial paper in times of panic in order to extend needed loans, restore confidence, and safeguard the commerce and industry of England.

Imperial Bank of Germany.

BALANCE SHEET, DEC. 31, 1908.

[Marks converted as 20—£1.]

LIABILITIES.		ASSETS.		
Capital and reserve	£12,458,581	Gold in bars	£16,792,075	
Notes in circulation	98,771,474	German gold coin	21,620,898	
Amount due on clearing and current accounts	33,344,291			£38,412,973
Deposits (not bearing interest)	25,167	Divisional money		10,594,046
Sundry liabilities and reserve for doubtful debts	720,072			49,007,019
Net profits for 1907	1,537,287	Notes of imperial treasury (Reichskassenscheinen)		2,876,243
		Notes of other banks		506,105
		Bills held:		
		Due within 15 days		22,660,590
		Due at later dates		28,939,529
				51,600,119
		Bills on foreign places		6,457,493
				58,057,612
		Loans		8,796,468
		Securities		19,734,627
		Value of real property belonging to the bank		2,849,450
		Sundry assets		4,940,348
	146,756,872			146,756,872

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

It will be observed that the Bank of Germany carries 50 per cent of gold against its notes and 37.1 per cent of gold against its notes and deposits, but the Bank of Germany can also issue legal-tender notes against commercial paper of a qualified class.

It will be observed that the Bank of Germany also carries a large volume of quick assets. Thus the Bank of Germany, like the Bank of England and the Bank of France, holds its reserves liquid and always available for loaning for commercial and industrial needs.

Bank of France.

BALANCE SHEET, DEC. 31, 1908.

[Francs converted as 25=£1.]

LIABILITIES.			ASSETS.		
Capital of the bank		£7,800,000	Coin and bullion at Paris and at the branches		£175,401,607
Reserve and profits in addition to capital		1,700,774	Bills due yesterday to be received this day		1,757
Notes payable to bearer in circulation (head office and branches)		197,972,403	Amount of bills:		
Drafts		914,397	Paris	£9,920,192	
Current account with the treasury		7,199,491	Branches	18,886,626	
Current accounts and deposit accounts:					28,806,818
Paris	£22,780,727		Advances on securities:		
Branches	2,721,524		Paris	6,332,341	
		25,502,251	Branches	14,478,603	
Dividends unpaid, etc		1,876,386			20,810,944
			Advances to Government (laws of June 9, 1857; June 13, 1878; Nov. 17, 1897)		7,200,000
			Government stock reserve fund		519,230
			Disposable funds, Government stock		3,985,234
			Immovable funds, Government stock (law of June 9, 1857)		4,000,000
			Amount appropriated to special reserve		336,298
			Office and furniture of the bank and buildings at the branches, etc		1,403,814
		242,465,702			242,465,702

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

This table shows that the Bank of France carries 88 per cent in coin against notes, the coin including both gold and silver, however, and carries 75 per cent of coin against notes and deposits. Its authorized issue of notes is 5,800,000,000 francs, or £232,000,000, which leaves a margin of over £35,000,000 sterling, or $175,000,000 margin of notes, besides the quick assets which it constantly carries, just as the Bank of England does.

The need for large cash reserves in France is due to the fact that the check system (currency) against deposits is not developed in France as in England and in the United States.

Bank of the Netherlands.

BALANCE SHEET, MAR. 31, 1909.

[Guilders converted as 12=£1.]

LIABILITIES.		ASSETS.	
Capital	£1,666,667	Coin, bullion, etc	£13,665,502
Reserve	435,955	Inland bills	3,514,347
Notes in circulation	22,796,206	Foreign bills	1,550,309
Transfers	173,200	Loan accounts	4,144,246
Current accounts	539,849	Advances on current accounts	1,882,021
Discount on—		Investments:	
Inland bills	10,521	Capital	332,663
Foreign bills	3,060	Reserve	432,708
Sundry liabilities	59,598	Sundry assets, buildings	255,721
Net profit for distribution	90,360		
	25,777,416		25,777,416

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves etc., are omitted so as to show the real position of the accounts.]

This bank carries gold against its notes of 58 per cent and gold against notes and deposits of 57 per cent, its deposits being very small.

National Bank of Belgium.

BALANCE SHEET, DEC. 31, 1908.

[Francs converted as 25—£1.]

LIABILITIES.		ASSETS.	
Capital paid up	£2,000,000	Specie and bullion	£8,336,529
Reserve fund	1,444,899	Bills discounted (bills in Belgium, £19,738,332; foreign bills, £7,421,639; total, £27,159,971)	27,159,971
Notes in circulation	32,275,122	Securities due for collection	193,849
Current accounts	4,028,662	Advances on Government securities	3,056,765
Stamp duty, share of profits due to the Government, employees' superannuation, provident funds, dividends due, etc.	1,029,776	Government and reserve fund securities	3,418,343
		Securities for current accounts, etc.	1,623,002
	40,778,459		40,778,459

[NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.]

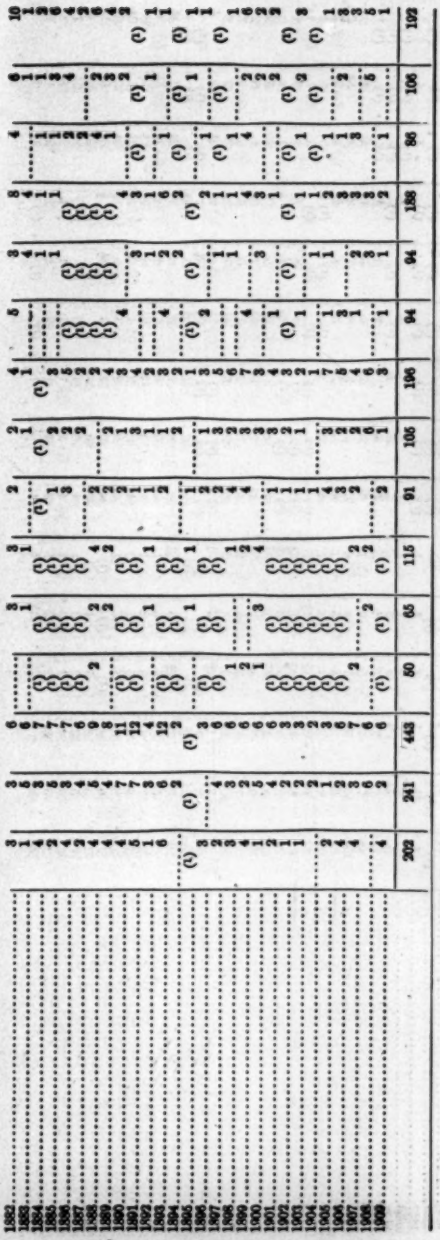
The Bank of the Netherlands carries 58 per cent of gold against its notes and 57 per cent of gold against its notes and deposits. This bank only carries a very small line of deposits.

The National Bank of Belgium carries 19 per cent of gold against its notes and 17 per cent of gold against its notes and deposits.

The three great banks of England, France, and Germany, as above mentioned, practically provide the gold accommodation needed by western European commerce, the two latter banks, however, serving a useful local purpose.

TABLE I.—*Rate of discount—Number of changes in each year at the Banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909.)*

Year	Bank of England.			Bank of France.			Bank of Germany.			Bank of Holland.			Bank of Belgium.		
	Rise.	Fall.	Total.	Rise.	Fall.	Total.	Rise.	Fall.	Total.	Rise.	Fall.	Total.	Rise.	Fall.	Total.
	Per ct.	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*
1844		1	1	(1)	(1)	(1)	1		1	(1)	(1)	(1)	(2)	(2)	(2)
1845	2		2	(2)	(2)	(2)	1	1	2	5		5	(2)	(2)	(2)
1846		1	1	(2)	(2)	(2)	1	1	2		2	2	(2)	(2)	(2)
1847	6	3	9	1	1	2		1	1	1		1	(2)	(2)	(2)
1848		3	3	(2)	(2)	(2)	1	1	2	1	3	4	(2)	(2)	(2)
1849		1	1	(2)	(2)	(2)		1	1		1	1	(2)	(2)	(2)
1850	1		1	(2)	(2)	(2)	(2)		(2)		1	1	(2)	(2)	(2)
1851	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
1852		2	2		1	1				(2)		2		1	1
1853	6		6	1		1	1		1				(2)	(2)	(2)
1854	1	1	2	1	1	2		1	1	(2)	(2)	(2)	(2)	(2)	(2)
1855	4	4	8	2		2	1		1	2		2	(2)	(2)	(2)
1856	2	5	7	1	1	2	3	1	4	3		3	1		1
1857	6	3	9	4	4	8	4	2	6	5	3	8	3	1	4
1858		6	6		4	4	1	4	5		6	6		4	4
1859	2	3	5	1	1	2	1	1	2	(2)	(2)	(2)	1	1	2
1860	8	3	11	1		1	(2)	(2)	(2)				1	1	2
1861	3	8	11	4	3	7				2		2	3	2	5
1862	2	3	5	1	3	4				2	2	4	1	2	3
1863	8	4	12	5	3	8	1		1	4	2	6	3		3
1864	7	8	15	4	7	11	3	1	4	5	4	9	2	4	6
1865	8	8	16	2	4	6	3	2	5	6	5	11	3	3	6
1866	5	9	14	2	5	7	1	7	8	4	7	11	2	4	6
1867		3	3		2	2				2	4	6		1	1
1868	2		2	(2)	(2)	(2)	(2)	(2)	(2)		2	2	(2)	(2)	(2)
1869	3	4	7	(2)	(2)	(2)	1		1	5		5		3	5
1870	4	6	10	4		4	2	3	5	4	8	12	2	6	11
1871	4	6	10	1	1	2		2	2		2	2	5	3	8
1872	9	5	14		1	1	1		1	5	1	6	6	3	9
1873	11	13	24	2	2	4	3	4	7	4	5	9	9	8	17
1874	6	7	13		2	2	2	2	4		3	3	3	6	9
1875	5	7	12	(2)	(2)	(2)	2	3	5		1	1	3	6	9
1876	1	4	5		1	1	3	3	6	(2)	(2)	(2)		2	2
1877	4	3	7		1	1	3	4	7	(2)	(2)	(2)	1	1	2
1878	6	4	10	1		1	1	2	3	2		2	2		2
1879		5	5	1		1	2	3	5		2	2	1	3	4
1880	1	1	2	1	1	2	2	3	5	(2)	(2)	(2)	1	1	2
1881	4	2	6	2		2	2	1	3	3		3	4	3	7



[1] No change.

[2] Operations commenced in 1851.

TABLE II.—*Lowest and highest rates charged and extent of fluctuation during each year, Banks of England, France, Germany, Holland (1844-1909), and Belgium (1851-1909).*

Year.	Bank of England.			Bank of France.			Bank of Germany.			Bank of Holland.			Bank of Belgium.		
	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.
	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.
1844	(1)	(1)	(1)				4	4½	½	(1)	(1)	(1)			
1845	2½	3½	1				4	5	1	2½	5½	3			
1846	3	3½	½				4	5	1	4	5½	1½			
1847	3	8	5	4	5	1	4½	5	½	4	5	1			
1848	3	5	2				4½	5	½	3	5	2			
1849	2½	3	½				4	4½	½	2½	3	½			
1850	2½	3	½							2	2½	½			
1851	(1)	(1)	(1)												
1852	2	2½	½	3	4	1									
1853	2	3	1	3	4	1	5	5	1	2	3	1	3	4	1
1854	5	5½	½	4	5	1	5	5	1	(1)	(1)	(1)			
1855	3½	3½		4	6	2	4	4½	½	3	4	1			
1856	4½	7	2½	5	6	1	4	6	2	4	5½	1½	3	4	1
1857	5	10	5	5	9	4	5	7½	2½	4	7	3	3½	5½	2
1858	2½	8	5½	3	5	2	4	6½	2½	3	7	4	3	5	2
1859	2½	4½	2	3	4	1	4	5	1	(1)	(1)	(1)	3	4	1
1860	2½	6	3½	3½	4½	1							3	5	2
1861	3	8	5	3½	7	3½	4	5	1	3	4	1	3	4	1
1862	2	3	1	3½	5	1½				3½	4½	1	3	5	2
1863	3	8	5	3½	7	3½	4	4½	½	4	5	1	4	5	1
1864	6	9	3	4½	8	3½	4	5	1	4½	6½	2	4	6	2
1865	3	7	4	3½	5	1½	4½	7	2½	4½	7	2½	4	6	2
1866	3½	10	6½	3	5	2	4	7	3	4	8	4	3	6	3
1867	2	3½	1½	2½	3	½				4½	7	2½	2½	5	2½
1868	2	3	1				4	5	1	4	5	1			
1869	2½	4½	2				4	5	1	4	5	1	3	6	3
1870	2½	6	3½	3½	5	1½	4	5	1	3½	5	1½	3	6	3
1871	2	5	3	2½	5	2½	4	5	1	3	4	1	3	5	2
1872	3	7	4	5	6	1	4	5	1	3	4	1	3	5	2
1873	3	9	6	5	7	2	4	6	2	3½	4½	1	3	6	3
1874	2½	6	3½	4	5	1	4	6	2	3	5	2	3	5	2
1875	2	6	4	(1)	(1)	(1)	4	6	2	3½	5	1½	3	5	2
1876	2	5	3	2	4	2	3½	6	2½				3	4	1
1877	2	5	3	2	3	1	4	5	1	3	4	1	3	4	1
1878	2	6	4	2	3	1	4	5	1	3	4	1	3	5	2
1879	2	5	3	2	3	1	3	4½	1½	3	4	1	3	4½	1½
1880	2½	3	½	2½	3½	1	4	5½	1½	(1)	(1)	(1)	3	4½	1½

[illegible]

[illegible]

[illegible]

TABLE III.—*Rate of discount, 1844–1909—The number of days at each rate arranged from the lowest rate to the highest.*

Rate.	Bank of England.[1]		Bank of France.[2]		Imperial Bank of Germany.[3]		Bank of the Netherlands.[4]		National Bank of Belgium.[5]	
	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).
2 per cent	3,409	143	2,735	115	.....	.....	1,328	56	.....	.....
2½ per cent	28	1	.....	.....	.....	.....	.....	.....	.....	.....
2½ per cent	3,599	151	2,579	108	.....	.....	5,058	212	3,189	147
3 per cent	5,859	246	7,828	329	3,073	129	8,013	336	9,412	437
3½ per cent	1,921	80	2,060	86	644	27	3,737	157	2,965	138
4 per cent	3,772	158	4,579	192	12,192	511	2,167	91	3,416	159
4½ per cent	608	26	353	15	1,626	68	811	34	698	32
5 per cent	2,195	92	2,061	86	4,094	172	1,823	76	944	44
5½ per cent	263	11	120	5	707	30	375	16	378	18
6 per cent	975	41	1,170	49	970	41	260	11	540	25
6½ per cent	91	4	8	.....	72	3	150	6	.....	.....
7 per cent	633	26	286	12	269	11	135	5	27	.....
7½ per cent	.....	.....	21	1	110	5	.....	.....	.....	.....
8 per cent	268	11	41	2	37	1	.....	.....	.....	.....
9 per cent	95	4	16	.....	63	2	.....	.....	.....	.....
10 per cent	141	6	.....	.....	.....	.....	.....	.....	.....	.....
Total	23,857	1,000	23,857	1,000	23,857	1,000	23,857	1,000	21,549	1,000

[1] Lowest rate 2 per cent; highest rate 10 per cent.
[2] Lowest rate 2 per cent; highest rate 9 per cent.
[3] Lowest rate 3 per cent; highest rate 9 per cent.
[4] Lowest rate 2 per cent; highest rate 7 per cent.
[5] Lowest rate 2½ per cent; highest rate 7 per cent.

TABLE IV.—*Rate of discount, 1844–1909—The number of days at each rate, arranged from the highest number of days to the lowest.*

Bank of England.			Bank of France.			Imperial Bank of Germany.			Bank of the Netherlands.			Bank of Belgium.		
Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).
5,859	3	246	7,828	3	329	12,192	4	511	8,013	3	336	9,412	3	437
3,772	4	158	4,579	4	192	4,094	5	172	5,058	2½	212	3,416	4	159
3,599	2½	151	2,735	2	115	3,073	3	129	3,737	3½	157	3,189	2½	147
3,409	2	143	2,579	2½	108	1,626	4½	68	2,167	4	91	2,965	3½	138
2,195	5	92	2,061	5	86	970	6	41	1,823	5	76	944	5	44
1,921	3½	80	2,060	3½	86	707	5½	30	1,328	2	56	698	4½	32
975	6	41	1,170	6	49	644	3½	27	811	4½	34	540	6	25
633	7	26	353	4½	15	269	7	11	375	5½	16	378	5½	18
608	4½	26	286	7	12	110	7½	5	260	6	11	27	7	.....
268	8	11	120	5½	5	72	6½	3	150	6½	6	.....	.....	.....
263	5½	11	41	8	2	63	9	2	135	7	5	.....	.....	.....
141	10	6	21	7½	1	37	8	1	.....	.....	.....	.....	.....	.....
95	9	4	16	9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
91	6½	4	8	6½	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
28	2½	1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
23,857	.....	1,000	23,857	.....	1,000	23,857	.....	1,000	23,857	.....	1,000	21,549	.....	1,000

It will thus be seen that these great banks holding the national reserves have been able to furnish commerce with a very low rate of discount for nearly all the time and only occasionally have been compelled to raise the rate to a high point.

These low rates illustrate the enormous value of these great banks to European commerce and the urgent necessity for action by the United States along similar lines.

(Thereupon at 12.55 o'clock p. m. the committee took a recess until 2.30 o'clock p. m.

AFTER RECESS.

The CHAIRMAN. Prof. Sprague, the committee wanted to give 30 minutes to Mr. Claflin, if that will be agreeable to you. He has to go away this evening.

Prof. SPRAGUE. That will be entirely agreeable to me, Mr. Chairman.

STATEMENT OF JOHN CLAFLIN, OF H. B. CLAFLIN CO., NEW YORK CITY.

Mr. CLAFLIN. In the first place, I would like to say that I agree with the recommendations of Prof. Sprague, especially with regard to the question of removal of the class B directors and the expediency of having the chairman of the advisory committee sit with the Federal council.

The CHAIRMAN. Or the reserve board, as they call it?

Mr. CLAFLIN. Yes. Personally I should very much like to have the Federal board composed of three members to be appointed by banks, leaving three to be appointed by the President, and the Secretary of the Treasury having practically the casting vote. I think such men as Mr. Marshall, to whom we listened this morning, and Mr. Wade, whose name was mentioned this morning, and any of the notable bankers of the country, even if we did not go so far as New York and took a man like Mr. Hepburn, whom you have seen here and who is as clear-headed and as fair-minded a man as I know. It seems to me that their expert knowledge would be of great value to the Government appointees and would probably enable the Government appointees to solve some questions that might be difficult for them to solve without a pretty extensive knowledge of banking. If they, however, should not be obtainable, I should be very glad to have the chairman of the advisory council sit with the other members. I think that would effect a very large part of what I would like to see; that is, the discussion of these current topics by some one who would have really expert knowledge of the matter.

Prof. Sprague's suggestion that 4 per cent of the reserves of the country banks should be left continuously with the city banks rather than to be put finally apart in their own vaults and apart with the Federal reserve banks, seems to me a wise suggestion.

I was thinking on that line myself, and I had in mind suggesting 2 per cent; but I feel that it is very desirable to make the country banks feel that as far as possible the facilities which they now have are not withdrawn from them. Of course it is going to be a pretty serious matter for all these country banks to determine what to do. If a large part of them should determine that they would rather make a sacrifice on their bonds than go into this proposed Federal issue, it would mean that the issue would be very much crippled and could hardly expect to do the great work which I think it will do if there should be a hearty cooperation of the banks.

And in that line, too, it must be borne in mind that if a large part of the banks would not come in, then there would be a contraction of the circulation which would be a very serious problem, indeed. I can see no way in which that could be met, because if a half of the

750 millions were to be liquidated—that is, if those notes were to be withdrawn from circulation within a year—the question would be a very serious one, indeed; and while in a way it is a fact that the banks are not suffering very much by selling their Government bonds, and that is to a certain extent an inducement, a very great inducement, for them to come in, yet, on the other hand, if a great many of them should see that this association could hardly be formed without their cooperation, and they should stay out for this year, the situation might be serious, and I would suggest from that point of view that it would be better that the banks, though they would have to forego the other privileges of the national bank within a year, should be allowed for as long as three years—two years more—to keep their circulation. That would mean a slower liquidation of the Government bonds.

The CHAIRMAN. You understand this reduction is a maximum of 35 millions per annum?

Mr. CLAFLIN. No; I did not understand that. I am very glad to know that.

The CHAIRMAN. It is a maximum possibility of 35 millions per annum.

Senator BRISTOW. Suppose they cease to be United States banks?

Mr. CLAFLIN. That is the point. Suppose they cease to be United States banks. Then they are compelled to give up the circulation at once.

The CHAIRMAN. Yes; they would do that. They would give up the circulation if they did not come in.

Mr. CLAFLIN. That is what I am afraid of, not from their standpoint; but if they can not afford to make the losses, it is their question and not mine. But as a merchant, as a member of the general community, I should suffer very much if those banks, or half of them, should elect not to come in and should be compelled by the terms of this law to give up their circulation within a year. It seems to me that would be nothing less than a calamity; and as I look at it I do not for the moment see any reason why that one year for them to give up their circulation should not be extended to three years. The banks would suffer the loss of going out, and the privileges that the national banks have otherwise would be denied them. But I think for the benefit of the community they should be allowed to continue the circulation for three years. That would make a slower liquidation of the Government bonds, and, meantime, probably under this bill a considerable part of the 375 millions could be put out in some other form.

I look at it, of course, in a different way from the bankers. I am looking at it entirely in its effect on the whole community, the mercantile community especially.

The CHAIRMAN. That is the point of view we especially want to get from you, Mr. Claflin.

Mr. CLAFLIN. And so it has seemed to me that there is a serious danger, and it seems to me, too, that perhaps in the shifting of the reserve accounts it might be better to make the changes a little more slowly. For instance, of course the country banks are the most important of all. The present requirement is that within 60 days and up to 14 months, 3 per cent of their reserves——

Senator POMERENE. What page are you reading from, please?

Mr. CLAFLIN. I am reading, now, from page 61. My suggestion would be that instead of 3 per cent, only 2 per cent should be required at first, and that that should be increased at the end of 36 months to 4 per cent instead of to 5 per cent, as is proposed here. And after 36 months it should be, as is suggested here, 5 per cent. It would simply make it slower, but arrive at the same conclusion.

And then on deposit in the reserve or central reserve city banks it is now permitted that 4 per cent should remain up to 14 months. I would increase that to 5 per cent, taking the gold out of the Federal banks and putting it back into the city banks, and within from 14 to 36 months I would have a gradual reduction. That is, in one year it would be up to 4 per cent, the next year to 3 per cent, and the next year to 2 per cent. There I should like to leave it, although if it were thought better not to do so, I would have it go from two to one and then from one to nothing, taking two additional years.

My whole thought is that it is most important from every standpoint that this new act should be put into operation in such a way that there will be no violent suffering, there will be no great loss over it. There is a very interesting compilation here in regard to the results at the end of 36 months. That is on page 65. I think that compilation would be correct if it were not for the question of the timidity of very many people, especially, we will say, bankers, when the future is uncertain. This computation is made on the general theory that there would be a pretty even division of the reserves among the banks; that the banks, in other words, would have it divided so that no one bank would hold very much more than it was compelled to hold.

In point of fact, whenever the bankers feel somewhat uneasy, some of the bankers, instead of trying to help a community, go to work to strengthen themselves.

Senator POMERENE. That is pretty general, is it not?

Mr. CLAFLIN. It is pretty general; yes. I knew several country banks, after 1907, who boasted that they had at the end of the panic a reserve of 50 per cent. They had broken a good many of their customers in doing that, but it was a question of self-preservation. Happily, under this act, when it is thoroughly in operation, there should be no such necessity. I believe they will all feel easy, and in the beginning, as it is going into operation, while there may be some uneasiness, because they are somewhat uncertain as to what will happen, I think we will have to count that some of them are going to be abnormally desirous of keeping stronger than the others, keeping stronger than is necessary, and I think we must take that human element into consideration and provide, as I have suggested, for the first 60 days and perhaps for the first year; and then I would make a gradual taking away of the reserves from the city banks and depositing them in the Federal banks in such a way and at such times that it would look perfectly clear to everybody who studied it that it could be done and there could not be any difference of opinion about it.

I do not know, gentlemen, that there is anything else that I want to say to you. I do want to express to you my approval of the general principles of the bill, and I think that I have indicated to you the things that I should like to see changed. I myself would

very much rather have these notes issued by the banks than by the Government. I feel that there is a sentimental as well as a practical reason why that would be better, because in times of stress if there is any doubt about the Government itself, it has a very much more harmful effect than a doubt about the bankers. But I do not think the workings of the bill will be materially affected by what may be done in that regard.

Senator POMERENE. In other words, your criticisms go to the transition from one system to the other, rather than to the ultimate effect of the system proposed?

Mr. CLAFLIN. Yes; that is what I am commenting on now. I made, in the first place, some suggestions following Prof. Sprague's remarks of this morning which seem to me to be thoroughly sound.

Senator BRISTOW. Mr. Claflin, what defects do you think our present currency system has?

Mr. CLAFLIN. The great defect is the lack of flexibility.

And, by the way, right in that line, I think that if we had a Federal board partly consisting of bankers they would be very much more certain to contract the currency when it ought to be contracted than if they were appointed mainly not from bankers. Bankers appreciate, perhaps, more than anybody else how important it is to contract when things are easy, so they may be prepared for expansion when there is stress.

Senator BRISTOW. Lack of flexibility. The chief purpose of this legislation is to provide, then, means by which credit can be extended; currency provided when there is stress?

Mr. CLAFLIN. Yes, sir.

Senator BRISTOW. Why could not that be done without breaking up this present currency system which we have and taking the chances on disturbance?

Mr. CLAFLIN. It could be, perfectly well.

Senator BRISTOW. How would you suggest that we go about it if we undertook to do that?

Mr. CLAFLIN. I think it would be a simple matter. I should leave the present currency undisturbed, just as it is, and I should authorize an association, various associations of banks, if you please. I should personally like better one great association, but if there is any objection to that, then a series of associations, probably the fewer the better, and give them certain rights under Government supervision to rediscount for all the national banks of the country. I am throwing this out just as a thought, as it comes to me on this question, but I have no doubt in my own mind that if, for instance, there were three or five or seven or whatever the number, the fewer the better, I think, and these associations were made up from the banks of the country, and if those banks had the right, subject to strict Government supervision, to discount—that is, to rediscount—for the member banks a limited amount, I think there would be afforded then an additional currency that would have all those elements of flexibility, because this must always be borne in mind, that you never want the whole currency flexible. That is not important. It is only the superficies of it, the outside, a certain rim, that is to be flexible, and that is all we want.

Senator BRISTOW. If I understand it, these associations would perform the functions, to a certain extent, that the clearing house does

now, and that you would rather legalize a clearing house certificate, or something after that order, in times when it was necessary to resort to that?

Mr. CLAFLIN. My idea would be that this should always be in operation. These associations might be called clearing houses, for they would be very much of that kind. They would be associations of banks, and these banks would have the right to rediscount for their member banks. They would have the right any time, and it would be used not always in times of stress. I should think it ought to be used every autumn to an extent, and it ought to go out every February or March. Every year it should be used instead of having to draw from New York and Chicago, as they have now, some 75 millions or possibly 100 millions of legal money and cause in that way a very great contraction of credits in all the cities, indeed everywhere, because all the smaller cities depend more or less on the larger cities to cause a contraction right in the fall of the year when the merchants want the money most, and at the same time crops have to be moved.

If we had such associations as I suggest, and they had the right to rediscount under Government supervision, they could rediscount at that time for the farmers and people who have the crops to move, and there would be no better security than that.

Senator POMERENE. How would you capitalize this association?

Mr. CLAFLIN. It really does not make very much difference. They would be perfectly good, being made up of these associated banks. I would capitalize them for a moderate amount.

Senator POMERENE. How would you organize them?

Mr. CLAFLIN. Allow the banks to come in; allow them only to come in ratably, you know.

Senator POMERENE. Wherein does that differ from the regional system here?

Mr. CLAFLIN. It does not differ from it, practically. The only thing is this is supplemental and this does not consider the doing away with the present bond-secured currency. I should simply leave that and make this a very much less important association. You see now it is proposing a very extensive reform in the currency. There would be a very much slower effect, but it would be on top; it would be a very much smaller association.

Senator BRISTOW. That would be dealing with the flexible part of it. It would be providing a flexibility which it does not now have by supplementing the present system.

Mr. CLAFLIN. The present change is basic, and that would be simply supplemental. They would be very much less important institutions, but they would perform a certain function, which would be additional to what is now performed.

Senator BRISTOW. As to the additional currency that might be issued, would you have that currency issued by the Government and furnished these associations?

Mr. CLAFLIN. No; I would have that issued by the banks entirely on their responsibility.

Senator POMERENE. The banks, or associations?

Mr. CLAFLIN. These new associations.

Senator POMERENE. Pardon my interruption, Senator.

Senator BRISTOW. That is all right. What would be the nature of this currency, then, that would be issued?

Mr. CLAFLIN. Bank notes.

Senator BRISTOW. By the associations, or by the banks?

Mr. CLAFLIN. By the association.

Senator BRISTOW. And that would be of temporary use and then automatically retired?

Mr. CLAFLIN. Yes; we would make very strict requirements that no bank should pay out any other bank's notes, and that in itself would compel the retirement. The banks would not hold the notes. They would be no good to them excepting to pay debts with. They could not be held as reserve; they would go back to the bank that issued them and have to be paid. I should have strict requirements of redemption at all these various centers.

I really ought, perhaps, not to take up the time of the committee with simply throwing out these answers that are made on the spur of the moment and without very much thought.

Senator BRISTOW. I understand you do not take very kindly to the Government issuing this money?

Mr. CLAFLIN. No; I very much prefer the banks to issue it.

Senator POMERENE. Will you allow me to ask a question there, Senator?

Senator BRISTOW. Yes.

Senator POMERENE. You say you much prefer the banks to issue it?

Mr. CLAFLIN. Yes.

Senator POMERENE. Is not that really a matter of sentiment rather than anything else?

Mr. CLAFLIN. I think to some extent it is, because in the last analysis really the Government does stand behind it; but I think there is this great difference, that in the case of stress and there comes to be any question of the Government defaulting, we get such a condition as we had in 1893 when the fears that the Government would cease paying gold on greenbacks caused alarm that has hardly ever been equaled in this country. If it was simply a question of the banks ceasing to pay, the alarm would be very much less.

Senator SHAFROTH. But the reserve was only 100 millions for the 346 millions of greenbacks, was it not? And that was afterwards increased. There has not been a single flurry since that time. There has not been any redemptions at all, they tell me.

Mr. CLAFLIN. That is perfectly true, and it is perfectly true that if the Government issues any money, if it has a sufficient redemption fund, there can be no question about it.

The CHAIRMAN. And we have really now 1,100 millions of gold warehoused against it, and if anybody wanted gold, that would be available before they needed to call upon the Government reserve fund against the greenbacks.

Mr. CLAFLIN. Of course, the difficulty about that, as I understand it, is this, that those warehouse receipts are already in the hands of various people who may not want to part with them. The Government can not use that gold.

The CHAIRMAN. Oh, no; I was only speaking of the public being already supplied with these certificates upon which they could get coin or bullion gold if they really desired it for shipment.

Mr. CLAFLIN. Oh, perfectly for shipment.

Senator SHAFROTH. They are in circulation pretty generally now, are they not, among the people?

Mr. CLAFLIN. To some extent.

Senator SHAFROTH. I drew out some money the other day, and I do not know but what it is all gold certificates. There is a gold note [indicating], there is a gold note, and there is one. All of them are gold notes.

Mr. CLAFLIN. But I think the difficulty in 1893 was not that the people needed gold, but that they were afraid they could not get it. As soon as they found out they could get it, it was all right. The most astonishing thing occurred in 1893. Within two days after Congress had passed the silver purchasing repeal bill there was plenty of money everywhere. The day before there was no money to be had at any price. Twenty-four per cent was freely paid for money, per annum, and that in a mercantile way, too—mercantile paper; choice paper was offered at 24 per cent per annum. It was not a stock-exchange proposition at all. And two days after that same money was freely offered at 8 or 9 per cent, and in another week it was offered at 6 per cen—any amount of it. And within a month after it was down to 3 per cent, or a month and a half after.

The CHAIRMAN. The Chair must remind the committee that Mr. Claflin's time has expired.

Senator BRISTOW. Can not we ask more questions if he has time?

The CHAIRMAN. The committee itself limited the time.

Senator BRISTOW. But I do not understand that we are limited here to the number of questions we can ask.

Senator SHAFROTH. The only thing is, Senator, we have got some people here who are waiting to be heard.

Mr. CLAFLIN. I do not want to impose on the other gentlemen.

Senator BRISTOW. I must say that I object to not being permitted to interrogate the witnesses.

The CHAIRMAN. The committee is in control of its own time, and the committee assigned 30 minutes for hearing Mr. Claflin.

Senator BRISTOW. I did not hear anything about the committee doing that.

The CHAIRMAN. You were here; I do not know why you did not hear it. The committee can easily adjust that. But Prof. Sprague and Mr. Berry are both here and they expect to be heard this afternoon.

Mr. CLAFLIN. I feel that I am really imposing on these gentlemen.

Senator BRISTOW. No. If anybody is imposing on them, it is myself. Have we not plenty of time?

The CHAIRMAN. We have, but Mr. Claflin wanted to leave this evening, and we had Prof. Sprague yield to him in order to give him that opportunity.

Mr. CLAFLIN. Thank you very much, gentlemen. I appreciate your courtesy.

The CHAIRMAN. We are very much obliged to you, Mr. Claflin.

Now, let us come to some understanding.

Senator BRISTOW. I think we had better. There is no use in my wasting my time here undertaking to acquire information in regard to this bill, when we have a witness of this kind who understands the business feelings and needs of the country, and then not have an opportunity to ask him questions. That is the objection I make.

The CHAIRMAN. The rights of the witnesses themselves should be taken into consideration. Prof. Sprague, of Harvard, has been here

for 10 days. He went home and came back, and he has been interfered with three or four times. Mr. Claflin having only a limited number of minutes that he could give us, we persuaded Prof. Sprague to wait. It was not with any view to cutting you off, Senator. The matter was submitted to the committee, and the question was asked should we give this time to Mr. Claflin, and it was agreed that we should, and having done that it is the duty of the chair to remind the committee when the time arrives. The committee has the right then to proceed with another witness, if they want to. The matter is entirely at the will of the committee. I am not disposed to make any arbitrary suggestions or rules about it. I only want to be fair to the men who have been good enough to come here to give us all the information they can.

Senator SHAFROTH. Whom shall we call now?

The CHAIRMAN. We ought to say what we are going to do. I am perfectly willing to leave it to the committee.

Senator BRISTOW. I am perfectly willing that the committee adjust itself to the convenience of the gentlemen, provided that if we do not get through they will come back and let us finish up at some other time. I think it would be very much better to get through with one witness before we take up another, and try to arrange so that the gentlemen who come can remain until we get to them, and not have so many of them at one time.

Senator SHAFROTH. But Mr. Claflin was not really entitled to go on the stand at all at this time. He was put on the stand on the plea that he could get through in 10 minutes. We gave him 30 minutes.

Senator BRISTOW. I think it is a good deal of a farce to call a man of Mr. Claflin's importance and with his relations to the business interests of this country, and then give him only 10 or 30 minutes.

Senator SHAFROTH. That is all he asked.

Senator BRISTOW. That is not all I ask.

Senator SHAFROTH. I am perfectly willing that you should have him back here.

The CHAIRMAN. We could ask him to come back here with perfect ease and with perfect propriety.

Senator BRISTOW. That is the objection I make, and I think it is a most important thing. I do not look upon this as lightly as some gentlemen seem to. I think it is the most important piece of legislation, by all odds, that this Congress will undertake, and I do not believe you can take too much care.

The CHAIRMAN. We are all agreed on that, Senator.

Senator BRISTOW. And when we have men who have valuable information which we need in legislating upon this question I think we ought to exhaust every means that we have to get such information.

The CHAIRMAN. We have pursued that course with the exception of this one witness, and this witness had to go, he said.

Senator SHAFROTH. Let us take up some one else, then.

The CHAIRMAN. Take Prof. Sprague and ask him any questions you wish to, and then we will take up Mr. Berry.

Senator BRISTOW. Anything the committee desires, just so we have full opportunity to bring out the information.

STATEMENT OF PROF. SPRAGUE—Continued.

Prof. SPRAGUE. I have prepared a short statement regarding Senator Shafroth's bill and a statement regarding the Aldrich-Vreeland Act, in response to a request from Senator Bristow.

If Senator Shafroth's bill were passed in its present form it would not add a single dollar to the existing amount of paper money in circulation or reduce the amount of gold in the country. It would provide in the course of time for a single issue of notes to take the place of gold certificates, the national-bank notes, and the United States notes. The total of these issues is something like two billions of dollars. But it would require the conversion of only about 700 millions of the gold certificates to put back of all of the new issue, the 50 per cent gold reserve provided in the bill.

When the process of converting the national-bank notes had been completed we should have about 1,700 millions of notes protected by a gold reserve of 850 millions of dollars. There would be no more difficulty in continuing the redemption of these notes than there is about continuing the redemption of the notes which they are to replace; and that is no difficulty at all.

Presumably, in the course of the next 10 years, as during the last 10 years, we shall add considerably to the stock of gold money in this country, because of the large current gold production of which we, like other countries, will naturally acquire some share. I can conceive, therefore, of no circumstances in which the issue of these 1,700 millions under the proposed arrangement would occasion any serious difficulty. I think, however, the measure might be improved in one respect if provision were made for a gold reserve of 55 per cent, with the further provision that in case the reserve should fall to 45 per cent the Government should then replenish the reserve by the sale of its obligations, either long-term bonds or short-term notes. It is wholly unlikely that in any circumstances this reserve would drop from 55 to 45 per cent, for it would mean that something like 150 millions or more of these notes would be redeemed; and it is wholly unlikely that any such amount of gold would in any single period be required for export purposes or otherwise.

If the reserve were placed, however, exactly at 50 per cent, it might be frequently necessary for the Government to secure gold elsewhere on account of a very slight amount of redemption.

There is a provision in this bill which I regard as wholly unnecessary and also as calculated to discredit the notes, since it somehow assumes that the notes to be issued are not an entirely satisfactory circulating medium. I refer to the provision of the bill empowering the Secretary of the Treasury to require banks to hold such proportion of these notes as a constituent part of their reserve as may be deemed advisable. If this issue of notes needs any such administrative protection as that, it is not a thoroughly sound, well-buttressed issue. I think it quite undesirable to give the Secretary of the Treasury such authority. If this bill were passed——

The CHAIRMAN. After mentioning the bill you had better state the number, otherwise it will be confused with the measure we have been considering.

Prof. SPRAGUE. Senate No. 3041. If this bill were passed, and the conversion of various kinds of notes into a single issue were

completed, our banking situation would be practically what it is at the present time except that the national banks would no longer be issuing the national-bank notes, but the difficulties which we have experienced in the working of our banking machinery would remain, neither affected for the worse nor for the better. This bill is a purely monetary bill concerned with that part of the circulating medium which there is every reason to suppose will be constantly required for monetary purposes by the people. If attached to a banking bill, it would be an obstacle to the passage of any measure whatever, because there are a large number of people in this country in whose minds are ever present the experiences of the country in the seventies and the eighties, when our currency was redundant. It is a measure which to my mind, if presented to Congress, should be presented on its own merits, by itself. There would then be a far better chance to convince the public of its merits than would be the case if it is a portion of a measure which is already so complicated that it is impossible in any short period of time to set forth its merits.

That is all on Senator Shafroth's bill.

Senator SHAFROTH. That is very satisfactory.

The CHAIRMAN. Now you have another one which Senator Bristow asked you about—the Vreeland bill.

Prof. SPRAGUE. I have reexamined the Aldrich-Vreeland bill and am of the opinion that the obstacles which prevent its being a very serviceable measure are largely sentimental, but they are none the less real on that account.

This measure when passed purported to be an emergency measure. Bankers and the public generally look upon the resort to the powers granted in the bill as an indication of a serious situation of something bordering upon a panic. The notes authorized by the bill perhaps could be put out without loss by the banks at the present time, but they will not be put out because of this feeling not only among bankers, but among the people generally. This suggests to my mind the defect of purely emergency measures as contrasted with measures along the lines of the Glass bill, which we have been considering.

The machinery set up by the Glass bill will be in operation constantly. There will not be so much business for the Federal reserve banks in ordinary times as in times of moderate or great strain, but the increase in business by the Federal reserve banks will not be apparent to the general public. On the other hand, there is a certain machinery provided in the Aldrich-Vreeland bill which will only be set up on special occasions. It is therefore a little analogous to clearing-house loan certificates in its sentimental effect, because clearing-house loan certificates have only been issued on occasions of serious crisis. The good effect of their issue is largely nullified by the alarm which their very issue creates. And so with this bill.

I do not think that slight changes in the conditions under which these notes could be issued, such as changes in the constitution of the associations or changes in the character of the security to be deposited or modifications in the taxation of these notes, would make any appreciable difference.

Senator BRISTOW. What changes? What I asked was that you suggest the changes to be made in it that would make it adaptable.

Prof. SPRAGUE. That is what I expected to do, but after looking over the bill I came to the conclusion that the powers in the bill were sufficient; that it is not through modification in the terms of the bill that would make it appreciably more helpful than it has been in the past. You can not overcome by slight modifications in its provisions the sort of sentiment which I believe is the explanation of the failure to use the bill, and the unwillingness of the bankers to use the bill. I may be wrong in this opinion, but that is the conclusion at which I have arrived. I think that probably any purely emergency measure, however agreeable it may be made in its details, will not be used unless the emergency is extreme.

Senator BRISTOW. Mr. Claflin suggested that if our present currency system was left as it is, and a number of associations formed by the bankers, these associations should rediscount for their members and issue a currency in the nature of an asset currency, and that it would take care of the desire for flexibility without disturbing our currency system which is already in existence. Do you think these associations provided for in this bill could be arranged so that they could be organized and be in existence and used for the purposes suggested by Mr. Claflin, and in that way overcome the prejudice that you are referring to?

Prof. SPRAGUE. That is conceivable. If the conditions of issue were made so easy that it would almost be worth while to take out these notes in ordinary times, it might be done. If, for instance, you should set up an arrangement with the avowed purpose that it should be used every year, in the autumn, we will say, and at other times if there was a very moderate strain, it is conceivable that the bankers might get in the way of using that machinery. I am, however, not altogether certain that I should go along with Mr. Claflin in this suggestion, which it is fair for us to recall he made rather in an offhand fashion. I should be inclined to fear that if these associations of banks were set up with power to rediscount and issue notes pretty freely, they would issue notes pretty freely and that credit would be undesirably expanded. I do not feel certain that these more or less voluntary associations of banks with these wide powers would handle these powers as carefully and wisely as a group of regional banks, more or less under the control of a Federal reserve board. No one can say that the scheme would not work well, but I should feel a little less confident of good results than I should from the kind of institutions proposed in the bill before us.

Senator BRISTOW. You think the banks would be inclined to inflate the currency under the system suggested by Mr. Claflin more than under this regional-reserve system that is suggested in this bill?

Prof. SPRAGUE. I am inclined to think so.

Senator BRISTOW. Why? What makes you think that?

Prof. SPRAGUE. My observation is that the bankers in this country, and indeed in other countries as well, in periods of active business lend to the full extent of their lending power, whatever that may be. The moderate contraction of the last 10 months would not, in opinion, have taken place if the banks had held in their vaults say a couple of hundred millions more of cash with the same deposit liabilities that in fact they had. I believe if there had been 200 millions more of cash scattered about among the banks in this country,

that instead of moderate contraction during the last few months there would have been further expansion.

Let us suppose that we had had such voluntary associations of banks with power to issue notes. They would have rediscounted to a considerable extent during the last autumn. And I am inclined to think that the notes which they put out would not have come back for redemption; that they would have remained in circulation and a little of the gold certificates, of United States notes that are now in the pockets of the people, would have drifted into the coffers of the banks and would have made there a basis for further credit expansion. I am not sure of this, as I have said before, but I do believe that we are more likely to get that element of conservatism in the handling of these great powers of extending credit through a comparatively small number of boards and through a central board at Washington than we are through an indefinite number or an uncertain number of voluntary associations of banks.

Senator BRISTOW. That is all I care to ask the professor.

Senator REED. First, Professor, I want to ask you if you have ever been a practical banker yourself?

Prof. SPRAGUE. No, sir.

Senator REED. You have studied and read, I presume, a very great deal on this question?

Prof. SPRAGUE. And, I may add, argued a good deal with banker friends.

Senator REED. I only wanted to know just whether you had seen the practical side, because I wanted to ask a question which would relate to that, which I am going to ask you now.

Were you here when Mr. Alling gave us his views with regard to gold reserve?

Prof. SPRAGUE. Yes, sir.

Senator REED. His plan differed from this plan suggested in the bill, radically. Have you given any thought to the suggestions?

Prof. SPRAGUE. It is a little difficult to express an opinion about a proposition which one has heard only in these hearings before there has been any opportunity to read them over.

Senator REED. I just asked you if you had considered them?

Prof. SPRAGUE. I had some impressions, but they are not such settled convictions as I might have after reading over what he has said. But my feeling as he outlined his scheme was that he was attempting to secure certain results by means of mathematical ratios which, to my mind, can only be secured by a competent management. I do not believe that it is possible to devise any system of ratios of gold to note issues and ratios of cash reserve to deposit liabilities of Federal reserve banks which will insure that the powers of such institutions will be wisely used and be available for all sorts of situations. It does not, to my mind, matter very much whether we place a 40 per cent reserve or a 33⅓ per cent reserve or any other ratio of reserve against the notes or other obligations of these Federal reserve banks. Whatever the ratio is, the management will be obliged to maintain a considerable reserve above that ratio in ordinary times, so as to have something to use in emergencies. But what they should have above the minimum legal requirement can only be determined by experience.

Senator REED. Yes. And frankly speaking, any system which has not been tried out must necessarily contain at least some of the elements of an experiment?

Prof. SPRAGUE. Exactly.

Senator REED. I wish, if you could do it in a very brief statement, you would give us your idea of what would constitute an ideal banking system in the United States, disregarding, now, this bill.

Prof. SPRAGUE. Some years ago I prepared a series of articles later published as a book with the title "Banking Reform in the United States." The propositions which I then made differed to some extent from those which we have before us, and differed even more from those in the bill of the National Monetary Commission, in that I took the position that the minimum amount of change should be made in our banking system necessary to secure a given result; and if I were to develop an ideal banking system or measure of legislation it would involve making a minimum amount of change to remove present defects.

Senator REED. No; that is just exactly what I do not want you to do. I want you just to imagine this country now as a country without a banking system at all, and you gifted with the absolute power to establish a banking system which would be the best that your ingenuity could conceive.

Prof. SPRAGUE. I should, in the first place, permit banks to be established with branches within at least county areas, and perhaps somewhat larger jurisdictions, although I should not be willing to go so far as to establish a branch bank system covering an area as large as the State of New York.

Senator REED. You say a branch banking system. That implies a head, and it would mean that there should be a central bank?

Prof. SPRAGUE. No; I mean that any bank would organize branches. The biggest difference between our banking system and that in other countries is that we do not permit the individual banks to have branches, and I do not believe in the overgrown system of branches which characterizes banking in many other countries. I think, however, we have gone a little too far in splitting banks, localizing banks, and I should like to see our banks given the power to operate branches within a moderate area. I believe that that would give better banking accommodation in sparsely settled sections of the country.

Senator REED. So that now you would establish a system of banks in which a member of that system would have the right to have branches?

Prof. SPRAGUE. Within restricted areas.

Senator REED. Within restricted areas. Very well. Now, what is the next step?

Prof. SPRAGUE. In the second place, I should permit these banks to conduct every variety of financial business, the operation of savings departments and of certain kinds of trust-company business. I am convinced that experience shows that the "department store" principle in banking is a sound one under proper legislation and supervision, of course.

This would give the national banks the ability to hold their own against State institutions which, in many parts of the country, they do not now possess.

As regards reserves, I should, because of the large number of our banks, continue to impose a reserve requirement. This is a requirement peculiar to the United States; and the fundamental reason is

the large number of banks which we have; and my slight modification with reference to branch banks would not greatly diminish the number.

I should have no more than two classes of banks—country banks and reserve agent banks. I would permit any bank that cared to enter into this class of business to become a reserve agent bank. All banks which did not care to qualify for such business would be country banks, wherever situated. The reserve agent bank would have to have a higher capitalization than country banks and hold a larger reserve, of course. But I would permit country banks to keep perhaps a third of their required reserve, whatever it might be, with these reserve agents.

I should further insert a provision in the law regarding the method of paying interest upon bankers' balances, whether counted as a part of the required reserves or not.

The trouble which we have experienced in the past on account of the concentration of balances of country banks in city institutions is very largely due to the fluctuating portion of such balances. Country banks, for example, increase their reserve balances by perhaps 50 to 100 millions of dollars between the end of May and the end of July. These balances and something more are withdrawn in September, October, and November. The city banks, because they pay interest upon daily balances, must fully employ them. When they receive funds from country banks in June, they must employ those funds, even though they know that those funds will be withdrawn in September or October. Now it happens that there is no temporary requirement for accommodation from city banks during just those few months when their country balances are at the maximum. It is possible, however, in most years to lend these funds on stock-exchange securities. It is a favorite period of the year for bull campaigns in stocks. When the balances must be withdrawn in the autumn, these stock-exchange loans are contracted and prices go down. No one is harmed in ordinary years except those who are speculating in securities; but in unusual years it is very difficult to withdraw the funds thus employed.

If the bankers themselves had adopted an arrangement for interest on balances under the terms of which interest would be paid on minimum monthly balances during periods of six months, there would not be this temporary inflow of funds to New York City, the use of which has never served any particularly useful purpose. A country bank, under this arrangement, would receive interest on that balance, the lowest balance which it held—not to any day during a period of six months, because that would be unfair, but its lowest average monthly balance during any six months' period.

A simple modification of the method of paying interest on deposits like this would have vastly diminished the disturbances which in the past have been caused by the concentration of bank balances in the cities.

Some years ago I was of the opinion that the changes which I have mentioned, together with a specially taxed and definitely limited asset currency, would be entirely sufficient to enable our banks to pass through periods of emergency without breaking down or without suspension of cash payments. I am no longer of that opinion. Both bankers and the public have lost confidence to such an extent in our

banking machinery that confidence can not be regained unless some pretty considerable and striking change is made in the system.

On the whole, I am therefore of the opinion that some sort of central rediscounting institutions are now needed to give bankers and the public confidence in the system.

The stronger, however, the individual banks are and the more perfect their arrangements among themselves the less burdensome will be the task which will fall to the rediscounting institutions. The bill of the National Monetary Commission did not add in any direction to the strength of the banks or strengthen their relationships one with the other, but left things as they were and provided a rediscounting association. The present bill does make important changes in the relations between banks, but, as I said this morning, I think it goes too far in breaking up those arrangements, with the consequence of concentrating relationships between the many thousands of banks on the one hand and the Federal reserve banks on the other.

I believe, as I intimated this morning, that the reserve agent banks might well act in a sense as buffers between the regional banks and the great mass of country banks, not separating the country banks from the regional banks by any means, but continuing the relationships with reserve agents so that the country banks will have more places to which to go for accommodation, and not find accommodation unduly restricted because of lack of a particular kind of security.

Putting it in another way, it seems to me altogether wise to minimize, so far as is compatible with the purposes in view, the duties and responsibilities of the regional banks; and particularly is this true during the first few years after institutions are set up. If they work well, it may in the future be found a better arrangement to withdraw country balances entirely from reserve agents. If the regional banks were providing a better service, that would be pretty certainly largely done without any legislation.

If I were going to add an entirely novel provision to this bill it would be the one regarding the method of paying interest upon bankers' balances. There will be bankers' balances, even if this measure is passed, because there are large bankers' balances over and above reserve requirements, and there will still be the tendency for bankers to send temporarily idle funds to the cities for short periods of time in order to get the 2 per cent; and the situation that is created by the use of such temporary funds by the city banks will create pressure upon the regional banks for accommodation. If it were thought feasible to insert a provision in this bill regarding the method of paying interest upon bankers' balances, I think it would prove of very great service to the managing boards of the regional institutions.

Senator SHAFROTH. Professor, I want to ask you just one or two questions. Will you state whether, in your judgment, the provision concerning the discounting of paper at the regional reserve bank and the issuance of currency upon the same would take care of the national-bank notes that are outstanding now, the 700 millions of bank notes?

Prof. SPRAGUE. I suppose it could, but it would be most undesirable. Suppose, for instance, that these notes are retired, according to the provisions of this bill, 5 per cent year after year. That

would mean 35 millions each year. Well, 35 millions might not make a very appreciable impression, particularly if currents of trade were such as to bring in that year a very large amount of gold. But next year another 35 millions is withdrawn, and another 35 the year after. Sooner or later this withdrawal of the national-bank notes would have an effect upon bank reserves. It would not lessen the amount of money in use among the people in their pockets; it would come out of bank reserves, and the banks would find that their lending power was lessened somewhat. They would find it necessary to go to the Federal reserve banks to rediscount, and it might work out that in the course of 20 years the volume of rediscounts would expand and provide the security for an equivalent of these national-bank notes which were being retired.

I think that might happen, but I think it most undesirable that these Federal reserve banks should be doing so large a business right along simply for the purpose of keeping national-bank notes afloat, those notes which have been for many years a permanent part of the circulating medium and which the ordinary requirements of the population absorb.

Senator SHAFROTH. Then you think that the operation of this bill, which is called the Owen-Glass bill, is not desirable so far as its feature of retiring national-bank currency is concerned?

Prof. SPRAGUE. Exactly. I think it most unsatisfactory.

The CHAIRMAN. I will ask you just one question, Professor. In case of the substitution of legal-tender notes for the present national-bank notes, do you think that that would cause a material increase of credits in the country by enlarging the reserves?

Prof. SPRAGUE. I do not. The national-bank notes are now pretty completely in circulation outside of the banks in so far as they are not held by the State banks as reserves.

The CHAIRMAN. As pocket money, you mean?

Prof. SPRAGUE. Yes, as pocket money by the people, in so far as they are not held by the State banks as reserves. Every year as the business of the country increases an increased amount of money is used outside of the national banks in the pockets of the people or by State banks, so that I do not think the conversion of the seven hundred odd million dollars of national-bank notes to legal-tender notes would make any appreciable difference now, and such slight difference as it might make would be a diminishing influence if we assume no further increase in the total. I regard it myself now as quite negligible.

Senator SHAFROTH. Professor, I have been requested to ask you a question. While I am anxious to have Mr. Berry go on the stand, I think I ought to ask this one question. What would the effect be, in your judgment, upon the repeal of the United States statute that imposes a tax of 10 per cent upon State bank circulation? Suppose it were repealed.

Prof. SPRAGUE. I think that we have altogether too many banks in this country to permit them generally to issue notes secured generally against their assets. There are so many banks that it would be probably out of the question to set up any system of regular redemption. A provision of law forbidding any bank to pay out the notes of any other bank would have some influence in checking undue expansion of the notes, but it would not be sufficient. Many people

are constantly dwelling upon the Suffolk banking system of Massachusetts and its device of daily redemptions. That system was a very perfect one so far as its redemption device went. The notes were redeemed steadily, constantly, and under that system it was impossible for any single bank to largely increase its note issue, for the reason that it was certain that an unusually large amount of its notes would be presented against it for redemption; but when all of the banks in Massachusetts were expanding at the same time, the system of daily redemptions did not check the expansion in the slightest degree. While each bank found that more of its notes were being presented for redemption, each bank found that it had more notes of other banks to be redeemed as an offset, and it worked just as it does in the case of checks. Checks are steadily redeemed, but if all of the banks are expanding, clearing-house operations do not reduce in the slightest degree the volume of deposits.

The result in the case of Massachusetts banks was this: That they increased their note issue to such an extent that practically all of the gold money was forced out of circulation. In the first place it was drawn into the bank by the simple process of substitution, but it did not stay there. Loans continued to be expanded, and in making payments outside of New England, where the notes were not so satisfactory as gold, the gold gradually drifted away. The result was that the banks were conducting business—both deposits and notes steadily retired—on a basis of practically no cash whatever. That is what would happen in this country under a system of universal asset currency even though an arrangement for steady redemption were set up.

In the course of time bank notes would gradually be substituted for lawful money and gold now in circulation. That would be attracted into the banks and be made the basis for additional loans, which would force up prices and gradually force an amount of gold out of the country unless we had a collapse before that process was completed. It is only by moderation in loans that credit can be kept within due bounds. No processes of redemption will accomplish that purpose when the banks generally are expanding their loans.

Senator POMERENE. I want to ask you just a question or two. Assuming that this regional system of banks is adopted, what do you say as to the wisdom or unwisdom of permitting the public to subscribe for this stock, instead of the banks; either in part or whole?

Prof. SPRAGUE. I see no objection to it whatever, and I do not feel that there would be any tendency on that account for the people to demand that the Federal reserve banks lend directly to individuals. People who invested in the bank stock would be a comparatively small number compared with the total population of the country.

Senator POMERENE. In your judgment they would subscribe for that about as they would subscribe for an issue of bonds if the Government should issue bonds?

Prof. SPRAGUE. Yes.

Senator POMERENE. And if that were done, would you not to that extent be increasing the bank capital of the country—that is, by not requiring so much to be paid or subscribed by the banks?

Prof. SPRAGUE. Well, I am not certain of that. The banks now, most banks, have various investments which are not strictly of a banking sort—bonds, for example. I should expect that the banks would

sell some of their bonds to provide themselves with the funds for their capital subscription. The bonds we will assume for the sake of the illustration will be purchased by the individuals who might, under the other arrangement, have bought stock in the proposed bank.

After all the amount of funds which are available for banking purposes depends more largely upon the amount of funds which people leave with the banks than it does upon the capital, and the increase in capital is not necessarily a net increase in the available banking fund. I think, however, it would probably, to some extent, though not to the extent of the capital subscription, add to funds available for banking purposes.

Senator POMERENE. Senator Bristow's objection seems to be that the country banks are opposed to subscribing for the amount of stock in the regional banks provided for in this bill. It occurred to me that if that objection is sound, by opening up this stock subscription to the public you could provide for the necessary capital for the regional banks in that way.

Prof. SPRAGUE. It might make necessary some changes in the method of selecting the managements of the Federal reserve banks.

Senator POMERENE. Probably so.

Prof. SPRAGUE. That would open up a wide field for discussion. If the capital can be disposed of to individuals without involving any other change in the bill, I do not see that there is any objection which can be made. The one that the bankers made seems to me to be rather fanciful. They contended that then the banks would soon begin to do business with the public. I do not think there is anything in that at all.

Senator POMERENE. Just another question on which I want to get your view. This bill provides that the reserve funds for the redemption of the reserve notes shall be gold or lawful money. What do you say as to whether that should be limited to gold or not?

Prof. SPRAGUE. I do not feel that that is a matter of serious importance. The European central banks, with the exception of the Bank of England, have always had to support a considerable amount of other than gold money in their reserves. The amount of lawful money which this institution would in any conceivable circumstance find itself burdened with must be exceedingly small, because, as I have said several times, practically all of the lawful money is in constant use outside the banks. If lawful money is not going to be increased in quantity, I think it is a matter not worth bothering about, whether the reserve is to be gold or gold and lawful money.

Senator SHAFROTH. That is all. We are very much obliged to you, Professor.

STATEMENT OF HON. WILLIAM H. BERRY, OF CHESTER, PA.

Senator SHAFROTH. Mr. Berry is the gentleman whose book we started to read in the committee and of which we read several chapters.

I wish it also to appear in the record that Mr. Berry was at one time treasurer of the State of Pennsylvania.

Senator POMERENE. And he is now collector of customs.

Mr. BERRY. There are two general schools of thought on this currency question, one of which supposes that it is necessary that a certain restraint be put upon the activities of the people. I think that school would perhaps be most ably represented by the professor who has just preceded me and to whose remarks I have listened with so much interest.

The other school of thought is that in which the concept of individual freedom in the matter of activity is the great consideration. I am of the second class. I do not believe that any restraint should be put upon the activity of any man. I do not believe that it is wise to put any restraint upon any individual who wishes to exercise his activity in the production of wealth; nor do I believe that any man should sit in judgment as to what activity he should engage in.

Therefore I approach this subject from a different standpoint altogether from that which the professor has presented. I am sorry to break in upon your deliberations because it will be a rather abrupt change in the viewpoint at least.

I am not a banker. I am like the fellow who when he was asked whether he was the mate of the vessel or not said, "No; I ate the mate."

I am the fellow who stands on the outside of the bank, and I speak from the standpoint of the business man who uses the banks.

The Senate Committee on Banking and Currency sent out a list of questions, which in my judgment were very searching and covered the entire field of thought under consideration. I spent a good deal of time in endeavoring to intelligently answer those questions. There were 33 questions, but they are not all quite pertinent to this discussion this afternoon. I shall not trouble you with any of the details in regard to the organization of the bank and I have no suggestions to make along that line.

Senator SHAFROTH. Mr. Berry, I read those answers, and I feel that they ought to go into the record right here. They are splendid answers to those questions.

Mr. BERRY. I am perfectly willing to put them into the record, but I thought it would be rather an abuse of your time to undertake to read them all now. There are a few which it will be necessary for me to refer to as I make my argument on this bill in order that they may be properly understood.

The CHAIRMAN. I think it would be well to have the questions of the committee and the answers prepared by Mr. Berry incorporated in the record.

Mr. BERRY. I want to make this preliminary statement. I believe, with the President, that every man who has an asset to hypothecate ought to be able to secure credit in a competitive market, in a market which would establish a just interest rate, and it is with that point in view that I have prepared the figures I have here to submit to this committee.

I believe that to be the great desideratum.

Now, it will save time for everybody concerned if I go over some of these answers and refer to portions of them respecting matter which I think very pertinent. In the first place, I would like as many of you gentlemen as can to make use of this table. It is a table compiled from the report of the Comptroller of Currency and appears in my books.

Senator SHAFROTH. That shows that only 8 per cent of the money of the country is used.

Mr. BERRY. My remarks will be largely a statement of facts.

The first question asked by the committee was:

What are the essential defects of our banking and currency system?

My answer to that is: The basic defect of the system is in the inability of the banks, collectively, to secure legal tender money in sufficient quantities to enable them to safely meet the legitimate demands for credit.

By "legitimate demands" I mean such as are accompanied by the offering of adequate security.

Any such demand for credit would incite an active competition among the banks for the privilege of supplying it, if they could safely do so; in which case an equitable interest or discount rate would be automatically established, and discrimination in favor of certain borrowers would be reduced to the minimum or entirely eliminated.

Under natural laws, as well as existing statutes, the power of the banks to extend credit is limited by the amount of reserve money that they hold.

They can not discount paper beyond this point.

The CHAIRMAN. There is not the slightest doubt about that.

Mr. BERRY. I will continue. Banking is founded and operated upon the law of averages determined by experience. Of the checks drawn by an individual against his account, only a small percentage will demand cash payment; the rest will be deposited, and a transfer of credit on the books will take care of them; but those who ask for the money must receive it. So that while the exact amount of money necessary to promptly meet this demand in any given case may be debatable; the fact that the bank imperatively needs some money in order to discount paper and physically care for the checks drawn against an account is beyond question.

Safe banking requires a liberal percentage above the amount ordinarily found necessary to pay checks.

In addition to this physical limitation, and because of it, the statutes require the national banks to hold an average of about 12.5 per cent of legal tender against deposits; but by means of deposits of legal tender in these banks by the State banks, trust companies, etc., the general average in the banks collectively may be, and is, considerably reduced.

A point is, and must be finally reached, however, when no further reduction in the per cent of reserve can be safely or legally made, and when this point is reached no further credit can be floated, no matter what security is offered.

In such case the transfer of cash from one bank or one city or even from one country to another can not help the general situation, since it does not increase the total held, and therefore the absolute solvency of our banks, as proven by their four billions of unimpaired capital and surplus, which is held in the form of so-called quick assets (stocks and bonds), is of no use whatever in the premises.

In such case there is nothing the banks can do but refuse to extend credit. If credit is refused, panic conditions are set up which compel the banks to withdraw existing credit.

Inevitably extensions will be refused to and withdrawals made from those in whom the bankers are not personally interested, and all the evils of a so-called money or credit trust or monopoly at once appear.

Therefore the demand for credit can not be met.

A careful study of the following table, taken from the report of the Comptroller of the Currency, June 30, 1912, will show that 10 per cent of reserve money held against deposits approaches the danger line and is certainly the limit of safety.

The table in my answer shows the condition of 25,193 banks of all kinds, compiled from the report of the Comptroller of Currency, June 30, 1912 (pp. 39 and 40).

It is not an exact transcription. Two or three of the columns have been brought together so as to condense it. All of the obligations are in one column and all the cash assets are in another column, so that the basis of percentage can be had.

The table is as follows:

[The national-bank notes are included in the demand obligations. The 5 per cent redemption fund is also included in the total cash.]

[Amounts in millions.]

Years.	Capital and surplus.	Loans and discounts.	Government deposits.	Total cash in all banks.	Total demand obligations.	Per cent of cash to obligations.
1864	$391.0	$70.7	.....	$198.3	$544.8	$18.5
1865	451.5	362.4	$58.0	199.4	830.5	24.0
1866	561.2	550.4	39.1	231.9	1,122.7	20.0
1867	577.7	588.5	33.3	205.6	1,101.7	17.1
1868	595.8	655.7	28.3	200.7	1,291.8	15.5
1869	615.7	686.3	12.8	162.5	1,337.5	12.1
1870	646.4	719.3	13.2	187.7	1,356.3	13.9
1871	659.8	789.4	11.1	194.0	1,578.2	12.2
1872	748.0	871.5	12.4	177.6	1,693.3	11.6
1873	748.5	1,439.9	15.1	218.2	1,776.5	12.3
1874	750.2	1,564.5	10.6	252.2	1,875.8	13.4
1875	846.8	1,748.1	10.2	238.7	2,115.3	11.2
1876	863.9	1,727.1	11.1	226.4	2,084.5	10.8
1877	874.7	1,720.9	10.9	230.5	2,115.0	10.8
1878	825.4	1,561.2	25.6	214.6	2,043.4	10.5
1879	826.5	1,507.4	252.1	216.3	2,254.0	9.6
1880	825.4	1,662.1	10.7	285.5	2,279.7	12.5
1881	864.3	1,901.9	12.2	295.0	2,621.5	11.2
1882	900.7	2,080.3	12.6	287.1	2,781.9	10.5
1883	973.4	2,133.6	13.9	321.0	2,899.5	11.0
1884	1,036.0	2,260.7	14.2	321.2	2,875.9	11.1
1885	1,040.0	2,272.3	14.0	414.3	3,017.5	13.7
1886	1,060.5	2,456.7	17.1	375.5	3,067.1	12.2
1887	1,267.0	2,944.9	22.2	432.5	3,498.2	13.1
1888	1,347.4	3,161.1	38.4	446.1	3,636.6	13.0
1889	1,425.2	3,475.2	46.7	499.1	3,933.8	14.0
1890	1,552.7	3,842.1	30.6	478.3	4,219.6	11.3
1891	1,648.9	3,965.9	25.9	478.1	4,346.2	11.0
1892	1,721.4	4,336.6	14.2	586.4	4,820.3	12.1
1893	1,781.1	4,368.6	13.7	515.9	4,896.1	10.7
1894	1,752.2	4,085.0	14.1	688.9	4,837.1	14.2
1895	1,759.6	4,268.8	13.2	631.1	5,113.1	12.3
1896	1,756.3	4,251.1	15.4	531.8	5,160.7	10.3
1897	1,725.2	4,216.0	16.4	628.2	5,221.7	12.0
1898	1,724.7	4,682.2	82.9	687.8	5,831.0	11.7
1899	1,734.7	5,177.6	76.3	723.3	6,944.4	10.4
1900	1,908.9	5,857.5	98.9	749.9	7,608.1	9.8
1901	2,031.7	6,425.2	99.1	807.5	8,878.7	9.0
1902	2,208.5	7,189.0	124.0	848.1	9,838.1	8.9
1903	2,595.3	7,738.9	147.3	857.2	10,060.1	8.5
1904	2,753.4	7,982.0	110.3	990.6	10,509.9	9.4
1905	2,902.7	9,027.2	75.3	994.1	11,971.4	8.3
1906	3,224.2	9,893.7	89.9	1,016.4	12,816.6	7.9-8.5
1907	3,335.8	10,763.9	180.7	1,113.7	13,828.2	8.0-8.6
1908	3,513.7	10,438.0	130.3	1,368.3	13,528.5	10.0-8.6
1909	3,634.6	11,373.2	70.4	1,452.0	14,743.2	9.8-8.3
1910	3,832.5	12,521.7	54.5	1,423.8	16,013.5	8.8-8.0
1911	4,018.0	13,046.0	48.4	1,554.1	16,640.5	9.3-8.6
1912	4,176.9	13,963.6	58.9	1,572.9	17,790.0	8.2

It appears from the table that in 1865 the reserve cash held was 24 per cent of deposits; and through the substitution of bonds for United States notes, and an accompanying expansion of credit amounting to $860,000,000, the reserve was reduced to 11.6 per cent in 1872. This forced a curtailment of credit that caused the panic of 1873.

This curtailment raised the percentage of reserve to 13.4 per cent in 1874, from which time it steadily fell to 9.6 per cent in 1879. Credit was restrained and panic was only averted by the deposit of $250,000,000 of Government funds in the banks. (See table, p. 563.)

In the next decade the coinage of silver under the Bland-Allison Act increased the legal tender money in banks, and for this reason an increase of $700,000,000 of new credit was accompanied by a rise in the reserve cash to 14 per cent in 1889.

This result was hastened by the fact that in 1878 the balance of trade turned in our favor, and in 1877 the excess of exports over imports of merchandise was $150,000,000, and continued at this average throughout the decade (1877 to 1887).

This favorable balance in merchandise gave rise to an importation of gold during this period amounting to $21,654,000 per year, or a total of over $216,000,000, which, added to the $240,000,000 of silver coined in that period, made a total increase of legal tender or reserve money in the country, above the current coinage of gold, or $456,000,000 in the decade. This accounts fully for the rise in per cent of reserve during this period of business activity and credit expansion.

In 1888 the balance of trade turned against us for two years, and in the period from 1888 to 1896 the average in our favor was reduced from $150,000,000 to $80,000,000.

I wish you would note carefully this statement, gentlemen. So much has been said of the cost of gold under which we labored in 1893 that this is a very important statement.

This necessitated the exportation of gold, and in this period of nine years $298,000,000 of gold went abroad, or $33,000,000 per year. The coinage of silver ($24,000,000 per year) was not sufficient to supply this loss and provide a basis for expanding credit, and the per cent of reserve cash rapidly fell to 10.7 in 1893. There were no funds in the National Treasury from which to help the banks as in 1879 and other years. New credit was necessarily refused, and panic ensued during which $280,000,000 of existing credit was withdrawn.

I take the position firmly and undertake to defend it against all comers that that cataclysm was due solely to the exportation of gold, due to the change in commercial relations between this and foreign countries.

Strange to relate, as a remedial (?) measure, the purchase of silver was stopped at this time, and the only available source of reserve money shut off in time of famine, and the country wallowed in the slough of depression until the discovery of new gold fields and new processes for refining low-grade ores in 1897 and 1898 increased the rate of gold production in the world by 50 per cent in two years, and for the simple reason that we had no money in the bank upon which we could maintain the credit necessary for our business.

This gold gave immediate relief, and a period of world-wide business activity and credit expansion was inaugurated, unparalleled in

history. Reserves in our banks were strengthened, but new and undreamed-of concepts of our productive powers were awakened, and the expansion of business soon overtook the increased production of gold, and while reserves increased enormously in actual volume the percentage began to decline and in 1901 had fallen to the unprecedented low level of 9 per cent. The reduction continued until in 1906 it had fallen to 7.9 per cent, although the total reserve held had increased 47 per cent.

At this point it became impossible for the banks to physically meet the cash payments of checks or to comply with the law as to reserves, and in the midst of unparalleled optimism and business activity the crash of 1907 came.

The railroads of this country were overwhelmed with business. There was not an idle car in the United States when the panic struck us in 1907, and that panic came simply because the banks of the country were unable to meet the requirements of the law as to the reserves and they were compelled to withdraw credit.

Senator REED. You spoke of the railroads. That was true of every industry, was it not?

Mr. BERRY. Yes, sir.

In the year ending June 30, 1908, no new credit was created and $320,000,000 of existing credit was withdrawn.

The deposit of $100,000,000 of Government funds in the banks, together with $100,000,000 of forced imports of gold and the withdrawal of $300,000,000 of credit, raised the reserve to 10 per cent in 1908, since which time it has again fallen to 8.2 per cent in 1912. The figures for 1913 are not at hand, but large exports of gold have been recently made, and the banks have been retrenching, which indicates that the reserve is now at or below the point of collapse in 1907.

It is my firm conviction that the credit situation of the United States is more strained than it was at this time in 1907 by reason of the fact that these $63,000,000 of gold has left the country, and some additional credit has been expanded.

These facts clearly show the cause of our financial difficulties, and, in my judgment, completely exonerates the banks from all blame for it.

Judged by the work it does, our banking system is, in my opinion, the best in the world. The difficulty is wholly resident in the currency end of the system.

Those are the two great factors in the currency of the Nation.

Our currency is a compound, consisting, first, of legal-tender money uttered solely by national authority; and, second, of circulating credit mainly emanating from the banks.

Money is a resource or asset that is given by law a fixed power to extinguish debt. The credit that circulates with and in lieu of it is a debt or a promise to pay money. It is circulated by and for the convenience of those who create it, and it is received by the public on sufferance.

The proportion of credit, therefore, that can circulate at par with money depends upon the disposition of the people to voluntarily receive it.

Experience in this country, as indicated in the table, shows that 100 per cent of credit to 10 per cent of cash in banks is about the highest proportion possible. The slightest hesitancy on the part of

the banks in paying any kind of cash the customer wants increases the amount required.

The law fixes a lower proportion (100 to 12.5) in the banks over which the Government has supervision.

The law also fixes the amount of money available in the country by designating the sources from which alone it may be supplied, and since the difficulty is resident in the scant supply the law alone can remedy it.

Now I take up the next question:

To enumerate concisely the advantages and disadvantages of the present system.

In answer to the first question I have described at length the one essential defect of the system. There are others, but they are trifling.

The advantages of our present banking system are many.

First. It consists of about 26,000 independent banks widely distributed over an enormous territory, so wide indeed that collusion and monopolistic control are well-nigh impossible.

Freed from the difficulty inherent in the scarcity of reserve money, competition among these banks for the privilege of extending credit would insure an equitable interest rate and a supply of credit equal to the demand.

This would allow our people to indulge their disposition to improve their condition without limit other than their ability and disposition to work.

Second. This system, comprising 26,000 banks, has been a natural growth answering a demand for banking facilities wherever it has appeared. These banks have an unimpaired capital of $2,000,000,000 and a surplus of more than $2,000,000,000. They carry $5,000,000,000 of quick assets (stocks and bonds) and are carrying nearly $20,000,000,000 of credit upon $1,500,000,000 of cash.

They have established clearing-house facilities, local and general, that make their credit universally mobile with a trifling cost for exchange. They are capable of furnishing to the people of this Nation all the credit they need, and fail to do so solely because they are unable to convert their vast assets into new reserve money any faster than the gold supply will permit.

No new banking machinery is needed.

If any extension should be needed (as it will), the energy and initiative of the people will supply it when and where it is needed just as it has in the past.

The experience of the past 10 years shows that the natural expansion of business in this country requires an annual increase of bank credit amounting to more than $1,000,000,000.

Senator REED. You mean a billion dollars of new money?

Mr. BERRY. I mean new credits, new bank credits, discounts of paper, and other methods of established bank circulation.

Senator SHAFROTH. On the basis of eight to one, it would be about $125,000 of new legal-tender money.

Mr. BERRY. In 1910 the banks extended $1,300,000,000 of new credit; in 1912, $1,150,000,000.

Assuming that 10 per cent of legal tender is necessary to carry credit, the banks, collectively, must secure $100,000,000 of new legal-tender money each year to safely meet this demand.

It is the experience of 50 years that the banks can secure only one half of the new money that comes into the country; the other half remains in the hands of the people. It follows, therefore, that in order that the banks may secure $100,000,000, an increase of $200,000,000 must be made in the country each year.

Senator SHAFROTH. Mr. Forgan said that the building up of legal money was one to eight. That is the reason I said $125,000. You say one to ten.

Mr. BERRY. Yes.

The most favorable view that can be taken of the prospect is that the annual average importation of gold for the last 32 years, which is $5,000,000—you will find that in the Statistical Abstract. There are mutations—it goes in more rapidly one year than another.

That will be continued, and that the highest yearly production of gold in the country, $90,000,000, will also continue.

Thirty millions of this annual product is used in the arts, leaving $60,000,000 for coinage, to which add $5,000,000 imported, and we have $65,000,000 as the total possible annual increment from gold, as against $200,000,000 that the country needs.

In the presence of these facts it is no wonder that the banks do not respond to the demand for credit, for while they have $5,000,000,000 of quick assets it is impossible to liquefy them in sufficient quantities to do so.

Nor is it surprising that an abnormally high interest rate obtains, nor that discrimination between borrowers leads to charges of conspiracy by lenders.

All of this is inevitable in the presence of a limited supply of credit which is forced by a limited supply of money.

The banks have vast resources unimpaired (stocks and bonds), but are unable to increase reserves, and must refuse credit.

I now take up question No. 3, which is:

What are the chief purposes to be attained by an improved system?

I answer that question as follows:

The chief purpose is to provide an unlimited supply of credit everywhere available, so that any man who has an asset to hypothecate as security can not only obtain credit upon it, but may do so in a market where competition among the bankers will insure him a just interest rate.

Bankers will readily extend credit when it is to their interest to do so, and since only a 10 or 15 per cent reserve is necessary, the conversion of a $150 asset bearing 4 or 5 per cent interest into cash will qualify them (without reducing their total of assets) to take on $1,000 of discounts at 6 per cent; but under existing conditions, where all the banks are loaned up (the conversion of the asset into new money being unlawful), the sale of the asset can not be made except at a sacrifice, and when sold by one bank to another does not help the general situation, since to qualify one bank to loan $1,000 has disqualified another.

There is no remedy along that line.

If there was a place where certain forms of bank assets (the public credit, for instance) could be converted into money, outside of the general market, bank reserves could be strengthened when

needed, and the demand for legitimate credit met, the interest rate kept normal, and the general profit to bankers increased.

I will take up question No. 4, which was as follows:

Should national banks continue to have a bond-secured currency?

I answer "no," and for several reasons.

First, this currency is of less value to the banks or to the community than the capital invested in the bonds would be if it was employed, as it should be, in the more proper and profitable forms of banking.

To illustrate: In round figures $700,000,000 of bank capital is invested in these bonds; $35,000,000 more of their cash is impounded in the redemption fund to which the Government finds it necessary to add $25,000,000 more; making $60,000,000 absorbed in maintaining current redemption for the notes issued against the bonds. $650,000,000, or 87.8 per cent of the entire issue, was thus redeemed in 1912.

We may assume that one-half of these notes are constantly loaned and earning 6 per cent for the banks, say $25,000,000 per annum, to which add $20,000,000 interest on the bonds, or $50,000,000 in all accruing to the banks on a total investment of $730,000,000, or a trifle less than 7 per cent per annum.

Now, if these bonds were sold to the Government for new legal tender United States notes, and the bank notes destroyed, the proceeds ($700,000,000) held in bank reserves would enable them to carry the five to seven billions of credit which is now needed and can not be granted, and from which at 6 per cent they would receive $300,000,000 per year, or six times the present return, while general business, using the credit, would reap a far greater return.

Second. The bank note is a mongrel in our currency. It is given, as I believe unjustly, certain monetary privileges and masquerades as money until it reaches the bank, where its real character is disclosed, and it runs immediately to the redemption bureau, for the sole reason that it is not money and can not stand in bank reserves.

Eighty-seven per cent of the entire issue runs back in a single year, and the 5 per cent fund of the banks being found insufficient, the Government furnishes the rest.

Third, a bank note secured by any kind of collateral is a form of credit; it is a promise to pay money, and therefore can not be justly or wisely given legal tender powers and made the basis of further expansion of credit or promises to pay money. There is no bottom to that pit. The piling up credit upon credit is dangerous, and therefore a remedy is not possible through the issue of credit notes of any kind.

Every note or coin that carries legal tender power and circulates in the Nation should be issued by the General Government, not as a loan secured by bonds or any other collateral—for this is banking, and the Government should not engage in banking—but by issuing it in exchange for an equivalent in value, just as the gold coin and gold certificate are issued. This is a Government function and can not be safely or lawfully delegated.

The bonded debt of the Nation in the hands of the banks is an equivalent in value to the money it represents. It is an evidence that an equivalent sacrifice has been made to the community by the

holder of it, and, when surrendered, affords the most just and direct way to supplement the mining of gold and furnish the banks with the needed legal cash basis for their credit.

I have shown, in answer to question No. 2, that in order to safely carry the billion of new credit that the Nation needs each year, $200,000,000 of new legal-tender money is necessary, and that only $65,000,000 can be secured from mining importation of gold. We must, therefore, either supply this deficiency with legal-tender paper or refuse to allow business to freely expand—to adopt or practice another proposition, and say, "Hold on."

The only alternative is to reduce the required reserve of legal cash or put some form of credit currency in reserves with it, and thus invite disaster. The issue of credit upon credit in endless succession is to invite disaster and is entirely unnecessary.

Banking is not a governmental function. All the circulating credit, of whatever form, should emanate from the banks. The local bank is alone capable of determining the validity of the demand for or the value of the assets offered to secure credit in its vicinity, and should loan its credit on its own initiative and at its own risk, reaping the benefits and suffering the losses incident thereto. This credit will circulate by the sufferance of the people, because they find it more convenient and less expensive than money. It should—and would, if enough could be carried by the banks—automatically correspond in volume to the growing needs of the people.

It may be noted in passing that since the population is constantly growing and the scale of living constantly rising, that even a temporary shrinkage of credit can not occur unless forced by circumstances outside of the volitions of the people, so that if we remove this outside pressure we need have no concern about retiring any of it.

The sole cause of the failure of credit to expand in response to demand is the impossibility of securing sufficient reserve money to safely carry it. The sole cause of contraction is the effort of the banks to adjust the volume of credit to their scant reserves.

Bank notes, however issued, can not remedy this evil, unless they are given power to stand in reserves—a travesty upon sound finance that would finally result in chaos.

If the essential difference between credit and money is held in mind, much of the confusion of thought on this subject will disappear.

Credit arises out of the voluntary arrangements between individuals, and without the sacrifice of an equivalent in value.

For example, citizen A goes to banker B, and on giving security, directly or indirectly, is given a credit on the books of the bank, which he uses as currency while he still owns and uses the asset against which the credit was issued. In other words, he has the "cake and the penny too," having made no sacrifice whatever except the interest charge. Nor has the banker sacrificed anything beyond the use or impounding of the fractional reserve required to carry the loan, for which, and his service in cashing checks, he is receiving the interest.

On the contrary, legal-tender money is purely a creation of law, and the universal practice of sane lawmakers is to demand the absolute sacrifice of a full equivalent in value by the individual receiving it to the community issuing it.

For example, it is assumed that the effort involved in the production of 25.8 grains of gold is equivalent in value to a dollar of legal-

tender currency, and the law provides that any person presenting that quantity of gold as evidence of this sacrifice, may have it coined into a dollar, but the gold must be sacrificed or devoted to the money used, and finally surrendered in exchange for other valuable things desired. The owner can not keep his gold as an ornament and use it as money at the same time; he can not have the "cake and the penny, too."

Money should always and only be thus issued, and when thus issued an overissue is not to be feared, unless the gold or other form of wealth thus used should by some fortuitous circumstance become accessible in large quantities without effort, in which case sane legislation would deny it the privilege of free coin.

A Government bond is an evidence of sacrifice just as surely as is gold or any other commodity. The concrete result of the sacrifice involved in acquiring a bond is not a piece of any one metal or thing, but is just as tangible in the form of Government machinery and the public works in general as is gold. The Panama Canal is just as useful to humanity and just as real as $350,000,000 of gold would be.

The community has received the benefit of the sacrifice involved in producing the bond in the form of a perpetual utility and may justly convert the bond into money—as justly and I think more wisely even than gold—not by a process of hypothecation as security for bank notes, but by a process of coinage into legal-tender notes.

Senator REED. I do not understand that last remark:

Not by a process of hypothecation as security for bank notes, but by a process of coinage into legal-tender notes.

Senator SHAFROTH. That means the issue of legal tender.

Mr. BERRY. That means the purchase by the Government of the bond before maturity with new legal-tender paper.

Senator BRISTOW. If I understand your position, it is, then, that the Government when it expends, as it has expended, $350,000,000 on this canal that it could have issued $350,000,000 of legal-tender notes——

Mr. BERRY. No.

Senator BRISTOW. And paid the bills?

Mr. BERRY. No. I think, brother, if you will wait until I have finished you will get the answer to what is in your mind. No; that would not do at all. That is where we got to actually in war time. We issued money in war time in response to the exigencies of the war. We wanted to fight a battle, and we ground out a basket of money and fought the battle, regardless of where the money came from, and as a result we got more money than business could absorb, and it depreciated. It is not safe to put out money directly for public works. Build your canal with bonds, give your bonds or issue them to be converted at the will of the holder into legal tender, and then the money will come out in response to the demands of business, and no faster. That will be the result of this proposition as I see it.

I come now to question No. 5:

Should the present requirement of reserves for national banks be reduced, increased, or otherwise modified?

I would like to have your especial attention to this.

One of two things must be done—and I think the whole problem is right there.

Senator REED. State that again, please.

Mr. BERRY. One of two things must be done: We must either reduce the required per cent of reserve, or make it easily possible for banks to maintain the present requirements without refusing or withdrawing credits.

The whole question of safety is raised by this consideration, and I would say at once that in the interest of general business any change made should be in the direction of greater safety rather than less.

The principal value of reserves, beyond the actual necessity for cash payment of checks, is to inspire the general public with confidence in the banks; and up to a certain point, at least, the larger the reserve known to be held the less will be required, for when confidence is fully established nothing but the amount of cash physically necessary to pay current demands would be needed.

This amount is variable, being greater in some places than in others, and varying in different seasons and different years in the same place, but never very large at any time or place, unless confidence is disturbed, in which case an enormous quantity may become necessary.

It is a wise provision, therefore, to have an ample reserve of legal-tender money in all of the banks and public supervision to announce it; and unless there is some compelling reason it should not be reduced.

There is no such reason, but, on the contrary, there are many reasons why the present requirement should be maintained or increased.

I have shown, in answer to question No. 4, that the conversion of $700,000,000 of bank notes, which are now a burden upon reserves, into reserve money would largely increase the earning power of the banks without increasing or decreasing the total of their surplus assets, cash taking the place of the bonds therein. The notes are now a liability.

At the same time this would afford a basis for the credit needed in general business, so that a direct benefit would result inside and outside of the banks.

An enormous increase in the safety of general business would result if the necessity for restricting credit was shown to be certainly and permanently removed.

I have no interest in any scheme that does not look to the prevention of panics and not to their amelioration after they are here. What we want is a preventive, something that will make it impossible for us to have a panic in the United States.

From the standpoint of the banks the question of safety is not important. The banks are already safe; they have a constant inflow of maturing paper upon which they can compel payment in case of necessity.

Right here I might interpolate that there has been some discussion as to the difference between commercial paper and farm mortgages as a basis for rediscounting. The essential reason at the bottom of the opposition to the use of a farm mortgage for that purpose lies in this fact, in my judgment: With a commercial note involved, whose maturity is almost immediately at hand, somebody's notes are coming due every day. The bank can force the borrower to sell his stuff in a stringent market, whereas if the loan is put up on a mortgage, the mortgage can be sold, but the seller is the bank, and the banker does not want to sell it in a bad market.

Senator BRISTOW. Mr. Berry, what we are undertaking to remedy is to provide the bank with the means by which it will not be necessary for it to force the maker of this note to sell his stuff on a stringent market and thereby bring about a depreciation.

Mr. BERRY. That is exactly what we want to do. I agree with you perfectly on that, and the standpoint I have outlined here is at least looking in that direction. But I wanted to introduce the idea there, because, as I have said, at the bottom of the whole opposition to our fixed asset, like mortgages or bonds, lies in the fact that if the sale is to be made, the banker has got to make it and not the borrower.

Senator SHAFROTH. And if there is any sacrifice, the banker will take it?

Mr. BERRY. The banker will take it. On the other hand, as it is now, in the case of a stringency, the banker calls my note and says, "Mr. Berry, I want the money." "I have not got it." "Sell something; it don't make any difference whether you can get a good price for it or not, go and sell it and bring me the money." If it was a loan on a mortgage, and he was hard up for money and he had to have it, and the mortgage was not due to-day and he could not force me, he would have to go and sell it; and a mortgage is just as salable as any commercial paper, except that it falls to the other fellow; that is all there is to that, in my opinion.

Senator SHAFROTH. So that the banker must supply the same logic to himself that he does to others?

Mr. BERRY. So that the same logic must be applied to both.

But this can only be done by forcing their customers to sell their assets on a strained market and often at a sacrifice.

The banks are safe, but general business is never safe, and at irregular and unexpected intervals is made to suffer an enormous loss by the contraction of credit.

A comparison of money quotations of bank stocks with rails or industrials on any given date will show a startling contrast.

Bank stocks range far above par, some of them many hundred per cent, while the other stocks struggle to keep at par.

There is no valid reason why banking should be any more profitable than any other business, and it would not be if competition was as active behind the bank counter as it is in front of it. This would be the case if every bank could build up its reserve at will at the expense of its surplus assets.

The remedy lies, therefore, in providing the opportunity for the banks to easily maintain reserves rather than in reducing the required reserve. The only alternative, as I have said, is the restriction of the volume of business, and this is the cause of all our trouble.

There is a disposition to regard money held in reserve as inactive and practically useless. No greater mistake could possibly be made. The money in bank reserves is the most active and useful money in the country. It makes possible ten times its volume in circulating credit, and without it our business would be decimated. The most important work that statesmanship can do is to make it easily possible to maintain it.

Senator POMERENE. Mr. Berry, referring to the difference between mortgage paper and your commercial paper, to which you alluded a moment ago. You can only compel, if the bank is a holder of commercial paper, the maker to sell when that becomes due?

Mr. BERRY. That is right.

Senator POMERENE. He can do the same thing with his farm paper?

Mr. BERRY. Sure, he can do the same thing if it is a mortgage.

Senator POMERENE. So that it is not a difference in kind; it is merely a question of degree, if anything.

Mr. BERRY. A question of degree solely. There is not any difference in the security. So far as I can see, one is as good as the other, except that there is a constant stream of maturing paper coming into the bank, and he can make the borrower sell it, and the mortgage, if sold, the bank must sell it, because it is not due for five or six years, and he can not compel the maker of the mortgage to pay it.

Senator REED. Therefore, he has to go out and sell his own note.

Mr. BERRY. His own security, the mortgage, his own asset. In a case like that the mortgage is always sacrificed, and he can never get half of what it is worth.

Senator SHAFROTH. He can not sell a note before maturity?

Mr. BERRY. Yes.

Senator REED. As an illustration, I go to a bank and put up my note for $10,000 due in 30 days. At the same time I put into the bank or sell to the bank a farm mortgage of $10,000 due in five years. The bank has to have money. It can say to me on the first of next month, "Your note is due, and we want $10,000 of money, and if you have not got it, go and sell your stock of goods, or sell whatever you have—cotton, wheat, or whatever you have—and bring it here." On the other hand, with the other security, it has got to hock that paper around itself.

Mr. BERRY. Sell its own notes.

Senator REED. But it is a better security, as far as safety is concerned.

Mr. BERRY. I would not say it was any better, Senator. I do not think that a mortgage on an individual piece of property is any better than the note of a reputable man who has plenty—a dozen different kinds of property, which is reachable through process of law. I would not say there is any difference in the safety of it.

Senator REED. Of course back of this note, which is secured by a specific piece of property, lies all the credit of the man who has issued it?

Mr. BERRY. Yes.

Senator REED. So that it is better, and it is so regarded as far as actual security is concerned?

Mr. BERRY. Yes.

The next question is:

Should an elastic currency be authorized by law? If so, should it be limited, and to what amount?

The first question may be answered in the affirmative, for the reference is doubtless to the money factor in the currency, and money can only come into existence by the operation of the law.

If we are going to have any currency, the law has got to do it, and it must be established by law, whatever it is.

Elasticity, in the sense that it will automatically increase in volume in response to, and only in response to, the legitimate demands of business, should be its chief characteristic.

Provision may be made for an automatic decrease in volume, but if it is issued under proper restraints it will never decrease in volume. If it is called out only in response to the growth of business, it can never retire unless the business diminishes, and business in this country is not destined to diminish. It never can diminish, except when forced to do so by the scarcity of money, and never will.

I wish to impress that thought upon this committee. If this money is issued under proper restraints it will never decrease in volume. If it is called out only in response to the growth of business it can never retire until the business diminishes and business in this country is not destined to diminish.

In a country covering the diversity of climate and conditions that this does business may and does experience local mutations of activity, but generally speaking there is no month in any year when the volume of business generally recedes. I have sought in vain to discover a period long or short in the recent history of the country when it was necessary to decrease the volume of money on account of a scarcity of business, but I have found many periods long and short in which business was of necessity withdrawn on account of scarce money. Elasticity "downward" or "inward" may be provided for, but it will never be used.

The credit factor in the currency emanating from the banks shows the same persistent disposition to expand and would constantly and regularly do so if an adequate supply of money to carry it was automatically supplied.

To the second part of the question I would answer that it should not be artificially limited. If an adequate sacrifice is demanded in its issue, natural laws will regulate the volume automatically.

A demand strong enough to overcome the resistance imposed by the sacrifice will alone be able to bring it out, and the continuance of the business that brought it out will keep it out. Elasticity, in the sense that any individual or clique, public or private, may exercise a controlling influence over the volume of currency, is not desirable.

The arbitrary fixing of the discount rate is a means to siich control, and should be punished as a crime instead of being authorized by law.

Competition on both sides of the bank counter is the only safe reliance for establishing the discount rates.

We need to disabuse our minds of the erroneous notion that the prople can not be trusted to know when they are doing all the buisness they wish to do.

When anyone offers satisfactory security for credit he should be able to get it in a competitive market, and he will be if we provide for the instant response in reserve-money volume to every such demand.

No sane man will borrow money on good security and pay interest for it unless he sees some way in which he can profitably use the money, and every such demand for money must be considered legitimate.

The so-called rigidity of bond-secured bank-note currency, or its failure to relieve a stringency by expanding, is charged to the fact that it is based on bonds of which there is a fixed amount. This is a mistake. The bond issue has never been fully used for note issues. Moreover, the extent to which it is now used is the result of pressure

from the Treasury Department, and not natural voluntary expansion.

Again, when a stringency occurs, the retirement or contraction of the existing volume of bank notes, instead of expansion, occurs. Every time you have a stringency the bank note contracts and does not expand. This can not be due to the fact that it is based on bonds, but it is due to the fact that the bank note is a form of credit and not money.

Whenever a stringency appears it is from the lack of reserve money upon which to carry credit, and the banks, in an effort to strengthen reserves, send in for redemption their holdings of bank notes other than their own.

Stringency always arises from an overissue of credit as compared to reserve cash, and bank notes, being the most readily liquidated form of credit existing—Uncle Sam pays if the issuing bank is tardy—they are sent in for redemption first.

A moment's thought will show that this result is inevitable and reveals the cause of it.

A banker finds that his reserve is depleted and must be restored. The only possible way to restore it is to call a loan. That is the only way he can build up his reserves; he must call a loan to build up his reserves. He has many loans that are drawing interest; all are in the process of maturing and can be called if necessary at maturity, but he finds that he has one loan that is fully matured and which is not drawing interest. It is in the form of bank notes other than his own, in the cash drawer, and to call it will not discommode his customers, so he sends it in for redemption, gets legal tender for it, and fixes up his reserve.

Senator POMERENE. You say he must "call" his loan. Is that strictly correct? If it gets below the required reserve point, of course, that is the only way to build up his reserve, by calling a loan? Another way is where his deposits accumulate without loaning out any more.

Mr. BERRY. To refuse further loans?

Senator POMERENE. Yes; refuse further loans.

Mr. BERRY. Yes. I mean by "calling a loan"——

Senator POMERENE. I catch your point, but I thought you did not fully state it.

Mr. BERRY. I put in a month's note to carry my business over the period in which I accumulate stock, and that period is six or seven months. At the end of the first three months I go there to get that note renewed. I want the banker to carry it another three months, and he says he can not do it. "Mr. Berry, you will have to pay me." That is what I mean by calling a loan.

Senator POMERENE. Under that state of facts——

Mr. BERRY. But the bank note does not interfere with any of his customers at all, and he fires that in first.

Senator REED. But what Senator Pomerene meant was, that he might just let his present loan stand, but as people deposited then quit loaning, and the effect of that would be the same; that is, would have the same effect upon the commerce and business of the country But now, let me understand you—were you through with that?

Senator POMERENE. This reserve is simply against further loans; it may be used for the purpose of paying off the mortgages.

Mr. BERRY. I do not catch that, Senator.

Senator POMERENE. Suppose the reserve would have to be $50,000, and it fell down to $48,000. If I am a depositor there, I can continue to draw out my money. It is only a reserve as against loans?

Mr. BERRY. Yes. I get your idea now. I understand you. But the bank may not make any further loans until it has made up some way or other its reserve, either by calling paper or accumulating, or as you say, current deposits.

Senator REED. Let me get a point clear in my mind. The bank can not count as any part of its reserve bank notes?

Mr. BERRY. No.

Senator REED. That is right, is it not?

Senator SHAFROTH. A national bank can not; the State bank can.

Senator REED. The national bank can not. A national bank has $100,000 of bank notes in its vaults. It can not count them as part of its reserve. It needs $100,000 to build its reserve up to the legal requirements. Thereupon it will take those $100,000 bank notes, its own——

Mr. BERRY. Its own it can not use. It must hold its own. It can not send in its own notes.

Senator REED. It can send in the notes of others?

Mr. BERRY. Yes, sir.

Senator REED. It sends them down to Washington, and it gets back gold certificates, greenbacks, or some form of money issued by the Government. The result, then, is that every time the 7,354 banks of the country gather up the notes of each other and send them down here and get Treasury notes and put them in their vaults, when they have sent them down here they have depreciated that class of currency. But, now, the Treasury notes come in and take their place, do they not? Then that does not make an actual contraction, does it?

Mr. BERRY. There is no contraction involved in that, except this, that there is a physical inertia. That 5 per cent redemption fund maintained by the banks here is called back. It has been out at times, but the Treasurer has complained seriously for the last four years that he has got about $25,000,000 or $30,000,000 of United States money invested in those notes all the time in addition to this $35,000,000 of the banks.

Senator SHAFROTH. And it is a contraction to the extent of the time that is taken from Chicago to Washington and return?

Senator REED. Where does the Government get this money that it uses to redeem these bank notes?

Mr. BERRY. This $35,000,000, the 5 per cent fund provided by the banks themselves?

Senator REED. Yes.

Mr. BERRY. I think if a bank sends notes in to the extent of $1,000 they are immediately forwarded to the bank that issued them, and they must make their 5 per cent good. They are paid for out of the 5 per cent fund.

Senator REED. Then when they make it good, they have got to take other money to make it good with?

Mr. BERRY. Surely.

Senator REED. And that does make a contraction at that point, does it not?

Mr. BERRY. I do not think so, because each takes the place of the other in the exchange.

Senator REED. Let us follow it and see about that. I want to get that clear. If I am muddled on it I want to get unmuddled.

Let us say that there is $100,000,000 of bank notes in circulation. There are in the Treasury of the United States $5,000,000 of a redemption fund. A condition of affairs arises whereby the reserves of the banks have been cut down so low that they all want money, and they gather up actually all of the $100,000,000 and they send it down to the Treasury. The Treasurer takes the $5,000,000 and pays out, and it is short $95,000,000. Whereupon it goes over into its vaults and takes out the other $95,000,000 and redeems this paper. We are even at this point. There has $100,000,000 come in and there has $100,000,000 gone out. But what happens?

Mr. BERRY. The outlying banks have sent that——

Senator REED. The next step is that the Government says to these banks: "Send us $95,000,000," and they have to send the $95,000,000, and the Government locks it up. Now, you have retired $95,000,000.

Mr. BERRY. Because you had it locked up before you started.

Senator REED. I do not believe it.

Mr. BERRY. Oh, yes; you could not have had it unless the Government had $95,000,000 locked up before.

Senator REED. But when the Government sent back that $95,000,000 in payment of those notes, then you have locked it up again.

Mr. BERRY. Yes; but it was locked up before.

Senator SHAFROTH. But they transfer that to the General Treasury and pay it out.

Senator REED. I do not care anything about that. I tell you it was an actual decrease of that amount of money in circulation. I may be wrong; but I do not think I am.

Mr. BERRY. I think you are mistaken.

Senator REED. But I think you are wrong. We are supposing that there are $100,000,000 of bank notes out in circulation to-day. There is in the Treasury of the United States the sum of just $5,000,000 reserve against that.

Mr. BERRY. Belonging to the banks.

Senator REED. Belonging to the banks; yes. And there is just $95,000,000 of Government money. They have not got any more.

Senator SHAFROTH. You mean the legal-tender money?

Senator REED. I mean money of any kind. That is all they have got.

Mr. BERRY. Yes.

Senator REED. And the banks conclude that they want to redeem—to get this legal-tender money that is over here in the Government's vaults for use, to add to their reserves. They take $100,000,000 of bank notes out of their vaults. It is out in circulation now, when they take it out of their vaults, is it not?

Mr. BERRY. Yes.

Senator REED. They send it to the Federal Government and they get $5,000,000 that they have there and $95,000,000 of the Government money for it, do they not?

Mr. BERRY. Yes.

Senator REED. And they take that back and put it in their bank. Now, they have just as much money as they had, and no more, as they had before the operation began, have they not?

Mr. BERRY. Yes.

Senator REED. Now, what has happened? The Government had this $95,000,000 locked up. They have taken this $95,000,000 which was locked up and exchanged it for $95,000,000 which was in circulation, have they not?

Mr. BERRY. Yes.

Senator REED. Then the Government says, "Pay us back our $95,000,000; we want to lock it up again"; and the banks do pay it back, and it goes into the Federal Treasury and is locked up and is not in circulation?

Mr. BERRY. But $95,000,000 of bank notes went the other way at the same time.

Senator REED. No.

Senator BRISTOW. No; it was not bank notes; it was reserve money that went back; bank notes are not reserve money. Ninety-five million dollars of bank notes have been returned to the banks.

Mr. BERRY. But it was a bank note in the first place that went back to the Government and was lodged in the Treasury. Ninety-five million dollars went back to the banks and was lodged in the banks. It was an exchange.

Senator REED. The Government takes that $95,000,000 of bank notes and destroys them.

Mr. BERRY. No; the Government says, "Give us our money," and sends them back. I am talking about currency redemption now, not the reserves of banks.

Senator REED. Well, how does that help the Government? I am going, for the sake of making this a plain illustration, to assume that there are just two kinds of money in the country.

Mr. BERRY. Yes.

Senator REED. Bank notes and gold. There are $100,000,000 of bank notes in circulation that can not be used as reserves. The reserves drop down. The banks thereupon say, "We have got to have these reserves replenished with gold from the vaults of the Treasury." They take their $100,000,000 of bank notes; they send it down to the Treasury. There are $100,000,000 there of gold; that is all the money they have there. Five million dollars of it belongs to the banks, and $95,000,000 to the Government. The banks say to the Government, "Redeem this money and give us gold." The Government takes this $100,000,000 of gold—$5,000,000 of which belongs to the banks—and sends it to the banks, and the Government puts in its vaults $100,000,000 of bank paper. That far your theory is correct. Next day, the Government of the United States says to the banks, "Pay us back our gold. We redeemed your paper, and now you owe us $95,000,000; please pay it back."

Mr. BERRY. Yes.

Senator REED. And there is no more bank paper sent into the Treasury.

Mr. BERRY. But there is bank paper sent back, and it goes back——

Senator REED (interposing). Wait a moment, please. Consequently, the banks take the gold, which is all they have now, and send

it back, and the Government sends back their paper; and they are not a bit better off than they were the day before the operation began.

Mr. BERRY. You are right as to that.

Senator REED. Now, whenever this money is really sent into the Government, and gold is really sent out, or Treasury notes—but I will stick to my original illustration of gold—the only way that gold can constitute a permanent reserve for the banks is to contract the currency by the amount of bank currency sent in to the Treasury; so that it is a contracting operation, is it not?

Mr. BERRY. If you are speaking of the retirement of the currency, yes; but we are speaking of currency redemption now. Then it is paid right out again.

Senator SHAFROTH. Yes; it is paid out again.

Mr. BERRY. But as to the retirement of the notes (which is limited to a certain amount per month) your statement is correct.

Senator REED. But it is a contracting process?

Mr. BERRY. Yes.

Senator REED. But when they get down to counting the money for reserves, that is a prescribed fund; and I thought I was talking in consonance, now, with your idea which you have expressed (although I put it in different language) that the first thing that retires in that case of a stringency was the bank note.

Mr. BERRY. That is also right.

Senator REED. Now, when that retires that means a contraction, does it not?

Mr. BERRY. Well, you, see, as I said in the first place, there is a certain physical inertia that is involved in that operation.

Senator REED. Well, we will cut the inertia part of it out for the moment.

Mr. BERRY. Well, that is all there is there.

Senator REED. No; there is the actual retirement there. The banks must, of course, build up the kind of money that will act as a reserve; and they do so by sending in bank notes.

Mr. BERRY. Well, if they retire the bank note and get legal tender for it, in that case, you are perfectly right; it is a contraction. But I am speaking about currency redemption, not retirement. At the very moment you want the money for reserves, that is the moment you lose it; because it takes a week to get the money from the bank to the Treasury and back.

Senator SHAFROTH. And it is therefore an actual contraction for a week.

Senator REED. I do not care about that feature.

Mr. BERRY. And you will find the very moment you want it is the very moment it runs away.

Senator REED. Now, back of these bank notes there is what?

Mr. BERRY. There is the Government bond.

Senator REED. Of course, if the bank brought its bond which it had paid the Government money for to the Government, that is the way it would settle it, would it not?

Mr. BERRY. Yes.

Senator REED. The banks have got the $100,000,000 of bonds now, we will say. Now, let us see if that would amount to the same thing.

Senator SHAFROTH. Certainly, if you present the bond it would make no change.

Mr. BERRY. Well, if you do not get new money for it.

Senator SHAFROTH. If you do not present the money for it, you are merely "running around the barn."

The CHAIRMAN. That is what this redemption amounts to; it is merely "running around the barn." It is not a retirement of the bank note at all.

Senator REED. But you have not gained anything by the process; conditions are the same as before.

Senator SHAFROTH. Well, there is the economic loss of time.

Senator REED. I do not care anything about the economic loss of time. I am speaking of the fact that it is going to contract this currency—the process of redeeming notes I have described and illustrated.

Senator SHAFROTH. There are a very large number of redemptions made of national-bank notes every year. Last year there were $600,000,000 redeemed; and according to that, if your theory of a contraction were correct, there would be $600,000,000 less of national-bank notes outstanding now than last year; and instead of that there are more.

Mr. BERRY. The only loss is in transition, in the movement back and forth.

Senator SHAFROTH. That is all.

Mr. BERRY. It is the inertia that is involved there.

The CHAIRMAN. Senator Reed, will you let me explain the matter?

Senator REED. You will not explain it so that I will understand it.

The CHAIRMAN. I was entertaining the hope that I could.

Senator REED. Because you will talk over my head. But I am really serious about wanting to get this method in my mind; and after I get through with this difficult question, then I shall be glad to hear all you have to say in explanation.

There is, in the case I put, in the country just $100,000,000 of bank notes. There is in the Treasury just $100,000,000 of gold. The Government obtained that gold by selling the 2 per cent bonds—$95,000,000 of it; and the other $5,000,000 the banks put in.

That is all it has. It holds the bonds; it holds the money. The banks find that they have to have $100,000,000 of gold to make their reserves good; and they have to gather up $100,000,000 of their paper; all there is. They say, "We will go to the Federal Government and get this gold." They go to the Government and get this gold. They get $100,000,000 of gold from there, and there is not a cent left. And they take it over here and put it in their vaults; and they put in the vaults of the Government $100,000,000 of bank paper.

Now, the Government says, "All right; you owe us $951,000,000." The banks say, "Very well; take your bond." Now, what is the effect of that operation?

Mr. BERRY. Why that is the most simple thing. If you will do that you have got the whole thing solved.

Senator REED. But the effect of that is that $100,000,000 of bank paper is wiped out; it no longer exists. And there is just the same amount of money in the country as there was before you ever issued a bank note.

Mr. BERRY. With this exception, that now that bank could float $1,000,000,000 of credit which it could not float before. That is the whole difference.

Senator REED. Very well. But there was prior to this time in circulation $100,000,000 of bank paper and $100,000,000 of gold in the vaults of the Treasury—but it was locked up.

Mr. BERRY. Yes.

Senator REED. And you have now released the $100,000,000 of of gold in the Treasury.

Mr. BERRY. Yes.

Senator REED. And put it in circulation—against the bank note.

Mr. BERRY. In other words, you have changed the $100,000,000 from bank notes to legal-tender gold; and now your banks can float a billion dollars of new credit.

Senator SHAFROTH. And the bank note goes out again?

Mr. BERRY. No; the note is destroyed with the bond.

Senator REED. Now I understand your logic. There is $100,000,000 less bank notes in existence?

Mr. BERRY. Yes.

Senator REED. But $100,000,000 of gold has been unlocked from a place where it could not be used and has gone into circulation in lieu of the $100,000,000 which retired from circulation.

Mr. BERRY. That is right. But the plan I propose would not have changed the gold situation at all and would have added $100,000,000 of new legal-tender paper to the circulation.

Senator REED. I do not understand your plan.

Mr. BERRY. The plan is that the bank can take this $100,000,000 of bankers' notes to the Government, along with the bond, and say, "Here is your stuff; give me legal tender for it." It sells the bond and the notes both for $100,000,000 of legal-tender paper. Now, it takes that back, and it does not decrease the Government holdings at all. That money was made brand new by the printing-press for that special occasion; new money.

Senator BRISTOW. Now, what becomes of these notes of the bank?

Mr. BERRY. They are burnt up.

Senator SHAFROTH. That would be a substitution of one currency for another?

Mr. BERRY. Yes.

Senator BRISTOW. What does the bank give to get this legal-tender paper?

Mr. BERRY. Its $100,000,000 of bonds.

The CHAIRMAN. The bank has these bonds in the comptroller's office; and Mr. Berry proposes that those bonds shall be burned up and canceled, and that the bank notes assumed by the United States, as they come in, shall also be burned up, because these bonds belong to the Government. And the Government, in order to prevent contraction will issue in lieu of those national-bank notes as they are burned, legal tender of the United States.

Senator REED. But why do that, when you have just told me that we did not contract the currency; we actually substituted good money for bad?

Senator SHAFROTH. Because, in one instance, he referred to the fact that the bond was not presented for cancellation. In that event, there was no contraction. But if you say, "I want the bond and the whole circulating medium destroyed"——

Senator REED (interposing). Well, then, if you did not destroy the bond—I will go back to my illustration: The bank takes its $100,000,000 of paper to the Treasury and gets the $100,000,000 of gold; and the next day the Government says, "Pay us back." What are they going to pay back with?

Mr. BERRY. With that same money they take.

Senator REED. If with the same money, then their reserves are in the same shape the day after to-morrow that they were the day before they started.

Mr. BERRY. Precisely.

Senator REED. So that they have not done themselves a particle of good by the operation.

Mr. BERRY. Not a particle; and they are doing it every day, to the tune of $700,000,000 a year.

Senator SHAFROTH. Each bank has but a certain proportion of this outstanding $700,000,000. And when the demand is made to restore this money, it is made on all the banks and not on one bank alone. And for that reason it does serve its purpose, until more notes accumulate in the bank vaults——

The CHAIRMAN. Senator Reed, I think you do not distinguish between one bank and another. There is all kinds of difference. When bank No. 1, for instance, sends in the bank notes of bank No. 2 for redemption, bank No. 1 proposes to get legal tender for the money of bank No. 2. The Government redeems the notes of bank No. 2 in lawful money, and sends the lawful money to bank No. 1, and sends this note back to bank No. 2 for redemption.

Senator REED. Exactly. But the grand total of the operation is that every dollar of paper that is taken down to the Federal Government has got to be redeemed in lawful money.

The CHAIRMAN. The Government redeems it and charges it up to the bank which issues it.

Senator REED. And when the bank of issue is finally confronted with its paper, which the Government has redeemed, it has got to take it out of the body of money in the country?

Senator SHAFROTH. It is not the same bank.

Senator REED. I understand; it is one bank playing against another. But the sum total of all the operations must be a contraction.

The CHAIRMAN. Well, when you in the period of a year send in the $600,000,000 of bank notes for redemption, there goes out of the Treasury the $600,000,000 legal tender notes; and the Government collects that amount of $600,000,000 from the notes it redeems. Therefore it is just like running around the barn.

Senator REED. Well, you can not tell me that you can fill up the gold reserves of the banks without taking that gold from some place, or that you can burn up that paper money that once represented that without losing something in the volume of money in the country.

The CHAIRMAN. You do not burn up the notes in the redemption of money.

Mr. BERRY. The only case is when you substitute legal-tender paper.

Senator SHAFROTH. And substitute the bond.

Senator REED. And if you do not do that——

Mr. BERRY. It is just the same.

The CHAIRMAN. It is confusing to talk about the retirement of these notes at the same time you talk about redemption. There is as much distance between the two operations as between the North and South Poles. The redemption process consists in a bank sending in the notes of some other bank and getting the lawful notes from the Government, and letting the Government collect the lawful money from the bank which emitted the notes.

Senator REED. Well, when the Government has collected from the bank, you are just taking that much money out of the general aggregate of the country.

The CHAIRMAN. Out of the reserves.

Senator REED. That is contraction.

Mr. BERRY. No; there is no contraction other than is involved in the inertia of the movement.

Senator BRISTOW. But, Senator Reed has been talking about restoring the reserve of the bank which is depleted; and whenever the bank sends in money which is not reserve and gets money which is reserve, that money is retired, not redeemed. He says it is retired; he is right. You can not restore your reserve with a money that is not legal tender.

Senator REED. And if any of you gentlemen can convince me of that you will convince me that a man can lift himself up by his boot straps.

Senator SHAFROTH. Here is this $100,000,000 that has been redeemed; it goes to one bank and comes from another. What is the reduction in circulating medium?

The CHAIRMAN. Just exactly.

Senator BRISTOW. This way of building up reserves comes to nothing, because if you do not issue money that is reserve money you do not have to reserve any.

Mr. BERRY. It affects the individual bank. It does not help the general situation an iota.

Senator REED. That is what I meant.

The CHAIRMAN. It does not help the general situation at all.

Senator SHAFROTH. To this extent it affects it, however, that it takes about a year to get around with all these redemptions to the Treasury, and back again into circulation.

Senator REED. Now, you have gotten away from my original illustration. I was talking about a condition that did not affect one individual bank but a general condition of the country, such as you say now obtains when the reserves are so low that they must be replenished.

Now, when that is true, there are a multitude of banks in the same unfortunate condition; and that multitude of banks will begin sending in their money; and if they all are in that condition, they are all bound to send in their money.

Mr. BERRY. Yes.

Senator REED. And the whole point that I have in mind is that, in the hour of depression and danger, we have got a system that is likely to cause actual contraction of the volume of money in the country.

The CHAIRMAN. It does contract it just to the extent of the physical inertia.

Mr. BERRY. That is the point I am trying to make clear—that the ultimate contraction is simply what lies in the inertia, which, however, becomes enormous at times, because everybody is doing it, and all the money is on its way to Washington or back again.

Senator SHAFROTH. Not at the same time, however?

Mr. BERRY. Practically at the same time. There is as high as $50,000,000 tied up in this way.

The CHAIRMAN. Here is the Treasury statement of September, 1913, which shows national-bank notes on hand of $52,000,000. This includes $48,000,000 which the Treasury has redeemed, and for which it will receive payment from national banks. That is, a certain group of banks has sent in $48,000,000, and that is redeemed through the agency of the Government, and the Government then collects the money of the banks whose notes it has redeemed. It just transfers legal-tender money from the banks whose notes are emitted to the banks which hold those notes for redemption. That is all.

Senator REED. But when the Government gets in that $48,000,000, it is going to get that in lawful money?

The CHAIRMAN. Yes.

Senator REED. And there is going to be that much lawful money locked up in the vaults of the Treasury?

The CHAIRMAN. Well, that much money has just been taken out.

Senator REED. And the bank notes are destroyed?

The CHAIRMAN. No.

Mr. BERRY. Oh, no. In the process of retirement they are, but not in redemption.

Senator REED. I am speaking about the process of redemption.

The CHAIRMAN. Those $48,000,000 of bank notes are sent back to the banks which emitted them; all national-bank notes are sent back in such cases, and those banks have got to send lawful money for them. But the other banks had received lawful money for them when they sent them to the Treasury.

Senator REED. So that the minute they send the lawful money back to the Federal Government it is no longer in their vaults?

The CHAIRMAN. No.

Senator REED. And it does, therefore, cut down those reserves to that extent?

The CHAIRMAN. Yes.

Senator REED. So that it is an utterly useless thing, except that you can temporarily create a sound reserve while the money is in transit?

Senator SHAFROTH. Yes.

Mr. BERRY. Yes.

Senator REED. And that is just exactly like my keeping my bank balance good by drawing a draft on you, Mr. Berry, and you drawing on Senator Shafroth, and he on the chairman, and my finally going around to make my draft good?

Mr. BERRY. Yes.

Senator REED. That seems to me an utterly useless process.

Mr. BERRY. The biggest piece of foolishness in the world.

The CHAIRMAN. It is.

Senator REED. But if somebody says, "Pay up," you can not prevent that?

Mr. BERRY. No.

Senator REED. Then somebody is going to say, "Redeem our bonds down here, and we will take the gold," and when that is done there is a contraction.

Mr. BERRY. You are right. Now, the greater the percentage of these notes in circulation, the larger will be the proportion of such deposits and the larger the demand for redemption. The issue of credit notes tends to greater rigidity, and not to greater elasticity, and can not therefore be used for this purpose. I wish to impress that upon this committee, because I think it is very important.

Now, it will make no difference whether that note is issued by the United States Government or by the banks. The same thing is true of it in either case. If it is not competent to stand in reserve when it is issued, it is not useful——

Senator SHAFROTH. Pardon me for interrupting you; but do you have to leave the city to-night, Mr. Berry?

Mr. BERRY. Well, I want to leave. But I will telegraph to Pittsburgh that I can not go there to-night. I do not want to disturb you gentlemen; but I have devoted a great deal of study to the subject——

Senator SHAFROTH. We are very much interested in what you say.

Senator REED. Yes; there are some further questions I should like to ask you.

Mr. BERRY. Then I will stay here. The paper which I have prepared with reference to this bill you will not be thoroughly interested in unless we have had this preliminary discussion. The first 10 comments on the questions are very brief. I have no instructions to give the committee in regard to the management of your Federal reserve banks.

(Thereupon, at 5.45 p. m., the committee adjourned until to-morrow, Thursday, September 18, 1913, at 10.30 o'clock a. m.)

THURSDAY, SEPTEMBER 18, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Owen (chairman), Reed, Shafroth, Pomerene, and Bristow.

The CHAIRMAN. Mr. Berry, we will be glad to have you proceed.

FURTHER STATEMENT OF WILLIAM H. BERRY, OF CHESTER, PA.

Mr. BERRY. As I remember, I finished discussing question No. 6 and my answer thereto, and I will now continue where I left off.

Senator REED. Referring to your answer to question No. 6 I should like to ask just one question. Do I understand that you mean that in the crop-moving period, while there is a demand for money, a large amount of it to move the crops, and when the crops are moved that particular demand has ended that immediately there is some other counterbalancing demand——

Mr. BERRY. The miller, for instance.

Senator REED (continuing). In some other part of the country or in some other line of industry that takes up the same money that the crop-moving demand did. That is what you mean, taking the whole average?

Mr. BERRY. Yes, sir.

Senator REED. Very well; I understand.

Now, I will ask another question, because I have the matter in mind. I do not mean to go into it in detail: In your answer you assume that the volume of trade in the country is constantly on an increase, and you say that the crop-moving period, while it demands a lot of money, as soon as it is over there are other activities that demand the same money; but you go further than that in this statement, and claim this: That there will be constantly from year to year an increased demand for money. Now, do you not think that statement is rather too broad?

Let me illustrate what I mean by this further question: Whether in periods of greater activity running over several years, perhaps, there will be greater demands than there would be in other years growing out of the multitude of conditions?

Mr. BERRY. There are such periods undoubtedly, but they arise solely from the fact that during the period in which the great activity is manifested the money supply is accelerated prior to the development of the business.

Senator REED. Now, are you not making the mistake of attributing everything to the volume of money? Let me illustrate again: Suppose there is a great war, such as we had here in the United States between the States, which paralyzes the industry to a very large extent of a great nation and puts out of good working order the entire commercial system of the world. Would not that depress production?

Mr. BERRY. Yes.

Senator REED. Then, are there not cases where, for instance, there may be a world shortage in the production of cereals and crops of all kinds. Does that not have its depressing effect on all lines of production, upon all commerce and all trade?

Mr. BERRY. There would doubtless be an effect resultant from a world shortage of crops. There would be fewer crops to move and fewer crops to handle.

Senator REED. There would be less buying and less selling?

Mr. BERRY. There would be less buying and less selling as measured in crops, but ordinarily a condition of that sort increases the price level and involves the use of practically the same amount of money in either case.

Senator REED. Does not it decrease the sale of other commodities?

Mr. BERRY. Not necessarily.

Senator REED. I am trying to just see whether your rule is not subject to some qualification. You say, "not necessarily," but is that not very likely to follow, given this sort of condition in the United States of two or three short crops. The farmer can not buy as readily as he can with full crops. The country merchant therefore finds his sales are curtailed and his purchases are necessarily curtailed until finally you reach the factory. Do not conditions of that kind come?

Mr. BERRY. They certainly do come, but as to whether they influence the volume of business or not I very much question.

Senator REED. You do not question the fact, do you now, that if you have bumper crops, if you have plenty of rain and plenty of sunshine, and there are great crops raised in the country, so that there is plenty of stuff for people to live upon, that that stimulates every kind of business. You do not question that do you?

Mr. BERRY. No; I would not question that as a general statement.

Senator REED. If it stimulates every kind of business, the more business you do the more money you get in circulation, do you not—more circulating medium?

Mr. BERRY. Surely.

Senator REED. In addition to the mere matter of crops, do not we have this condition to contend with, which has this effect upon the demand for money: We have a period of good crops and everything is running in fine shape; people begin to expand, they build houses, they buy automobiles, they start new enterprises of a thousand different kinds. The demand for money is very heavy, and then, after a while, they just reach the limit. They have gone a little too far, and there comes a period of settlement and curtailment. Is not that a thing to contend with and does that not affect your general rule?

Mr. BERRY. Well, perhaps so. I think there is no doubt but that the relative world production of crops directly from the ground affects the general world activity, but my experience and my search, as I have stated in this previous answer, is to the effect that practically, as a world problem, that does not occur. We do not have any appreciable variation.

Senator REED. But we do in this country.

Mr. BERRY. Yes; and they do in other countries, but while it is good here it will be bad there and it is a compensatory matter.

Senator REED. You say if it is bad here it is good there?

Mr. BERRY. Yes.

Senator REED. Now, if you had a world-circulating medium those conditions might equalize.

Mr. BERRY. But we have a world medium; and they have a world medium.

Senator REED. Oh, no; we have a monetary system for our own country. Let us suppose this sort of condition: Splendid crops all over the world except in the United States for three or four years in succession and poor crops here for the same period of time, so that we would have a short production with very little surplus to market, and what little we did have to market would get low prices because of the production abroad. That is bound to produce depression here, is it not?

Mr. BERRY. Yes; but your first assumption is that we have a currency confined to this country and that is an error.

Senator REED. Well, I admit it is not strictly a fact.

Mr. BERRY (continuing). Because the currency question is a world question, and just as long as that condition is set up wherein there is a scarcity of products in one country which affects the price limit, just that instant it begins to move the money from one country to the other.

Senator REED. You mean to move the gold.

Mr. BERRY. Yes; because the gold is the one common factor in the various currencies and that makes it a world question.

Senator REED. But in this bill we are not dealing with the gold so much as we are dealing with the question of other kinds of money.

Mr. BERRY. I think we can not deal with the question at all without having prime reference to gold.

Senator REED. I think there is much truth and philosophy in what you said, but I think your inference is too broad—entirely too broad.

Senator SHAFROTH. Is it not a fact, though, that there is more currency needed when these depressed times come, when the banks are demanding of the people that they pay their notes, than in the boom times?

Senator REED. The people who hold the money do not need more.

Senator SHAFROTH. Well, there is a limitation of things and there is a demand for liquidation, and if money were plenty there would not be a call upon them.

Senator REED. Liquidation once made is over.

Senator SHAFROTH. That is true.

Senator REED. But in business and good times one business transaction simply leads to another and another.

Senator SHAFROTH. But that liquidation that takes place produces a condition where there is panic, and everybody concedes that we need money in panic times.

Senator REED. Your philosophy would lead to this: That in good times we would not need any currency, but when bad times come we would need a great deal of money.

Senator SHAFROTH. I do not think that; I think there is a truth to a great extent in what you say, but I do not think that they recognize that when the depressed times——

Senator REED. There ought not to be a contraction.

Senator SHAFROTH. I think so too.

Senator REED. There ought not to be, then, a forced contraction, making it hard to transact business.

Senator SHAFROTH. But at the present time it is my judgment that we need a good deal of money.

Mr. BERRY. If you confine this to a single locality or a single nation in the consideration of this question, you will encounter just the question that you have raised; but if you take the broad effect and assume, which I do, that the currency problem is a world problem and that it can not be localized, the question is better understood. Therefore the world progress and the world development are things that you must have in view; and this is the point that I make—that at no time have I been able to find when the world at large was required to reduce its currency because of a reduction of business.

Senator REED. You spoke about world supplies and world conditions, and you spoke about one country being considered by itself. Do you not think that world conditions, that these periods of settlement, are world-wide?

Mr. BERRY. Surely.

Senator REED. For instance, I notice that in a number of our panics in this country there was a panic in England the very same year or a year or two previous. Nearly every panic we have had within modern times, they have had a panic in England at the same time or perhaps a year earlier, just giving time for the reflex action.

Mr. BERRY. I think if you will allow me to finish the discussion of my paper you will get my view as to all these facts.

Senator REED. I just wanted to get your point of view in that connection. If you are about to take it up, you may as well proceed.

Mr. BERRY. I will now take up question No. 7.

Should such currency be the notes of individual banks, or of a central reserve association, or of a number of regional reserve associations, or of the United States Treasury?

I answer that question as follows: The notes must of necessity be issued from the United States Treasury.

To be of any service whatever they must be clothed with legal-tender power—the power to extinguish debt—and therefore competent to stand in bank reserves as a liquid asset.

Such notes can only be issued by the General Government. Even the sovereign States are forbidden by the Constitution to make anything but gold or silver legal tender.

If any bank is permitted to issue circulating notes, all banks should be permitted to do so; and all such notes should be purely credit instruments, devoid of all legal powers, and circulate, as other credit instruments—checks, etc.—must do, on the sufferance of the public.

I do not think that such an issue would be profitable to the banks or desirable in the community. The maintenance of redemption for them would absorb as much or more of reserve money than would a similar amount of book credit.

In my judgment, the Government should issue all the notes as well as coins that are used in the country, and they should all be made a full legal tender for all debts, public and private, in the nation.

If there were no profit in issuing notes, the banks would not do it. If there is a profit in issuing notes—and there is—it should revert to the Public Treasury, and not to private individuals or banks. Simplicity, economy, and justice would all be accomplished by this process.

Now, referring to question No. 8:

Should these notes be procured from the Treasury on pledge of security; and if so, of what should this security consist? Should these notes be a first lien of the Government upon the assets of the association or bank to which they are issued?

The notes should be procured from the Treasury on the surrender of an equivalent in value, just as gold certificates are procured by the surrender of gold.

In my judgment, the best form of equivalent to be surrendered is a Government bond.

The Government (all the people) have been the recipients of the benefits derived in creating the bond. The Government must pay interest upon it until maturity, and finally pay the individual that owns it the face of the bond.

The Government may justly buy it when voluntarily presented before maturity at the market price, and pay for it with new non-interest-bearing notes payable on demand in gold, to which notes legal-tender powers may be lawfully and justly given.

By a bond issue the Government (all the people) becomes indebted to a part of the people, the evidence being an interest-bearing time obligation. By this process of purchase the Government (all the people) is still indebted to a part of the people to the same extent, the evidence being a noninterest-bearing demand obligation circulating as money.

If this is done only on the voluntary solicitation of the bond holder, who finds that legal-tender money will be of more use or value to him than an investment at current interest rates, no possible injustice is done to him or to his debtor (the people); but a public necessity has been met, and the public has reaped a benefit in the cessation of interest.

If the note is never presented to the Government for payment, by reason of its loss or destruction or by reason of the continued necessity for its presence in bank reserves, the public gains not only the interest but the face of the note.

A private individual would find no advantage in thus converting a bond, for he already has a safe investment at current rates and can not improve it, but a banker would find it to his advantage to convert a $1,000 bond bearing, say, 4 per cent interest in order to qualify himself in the matter of reserves to take on a safe loan of $7,000 or $8,000 at 4 or 5 per cent.

An unsafe loan would not tempt him, so that the notes would automatically come into circulation in response, and only in response, to the legitimate demands of business, and would stay in circulation as long as business continued.

Manifestly, the banker would not convert a bond into money if his reserves were maintained by the voluntary deposit of newly mined or imported gold in his vaults by his customers, so that the mutations of gold production and movement would be met by an automatic adjustment of note issues. If gold increased, note issues would decrease, and vice versa.

I think the same reasoning could be applied to the mutations of current production, and that is the philosophy of the proposition, the mutations of current production. We have a constant in the production of gold, practically; we have a variant in the commodities which are measured by gold. Some years it is greater, some years it is less; so that as the constant is always deficient the supplement which should automatically come into existence would automatically come into existence, following this same reasoning in answer to the mutations of the production of notes, just as it would in answer to the mutations in the production of gold. It would supplement whatever the gold supply failed to produce.

These notes if issued as described would become a permanent part of the monetary circulation. They would never be presented for payment or for reconversion into bonds unless the production of gold became more than sufficient to supply the demand for reserve money, and this, I think, if it ever happens, will make it necessary to deny free coinage to gold.

These notes should be an obligation of the Government and not of the banks, and the question of preferred creditors of the bank is eliminated. In any event, if properly issued they would never be presented for payment, and it is mainly for this reason that the banks should not issue them.

Now I come to question No. 9. That is the most important question of the lot, gentlemen, and I want to have your attention.

Should all currency be based on gold? If so, how should it be issued, and what per cent of gold should be required?

And I answer that question in this way.

In the sense of ready exchangeability, all currency should be based on gold.

Since gold is admitted by law to free coinage at a fixed price in all the important countries of the world, it affords an efficient means of maintaining the par of exchange so necessary to foreign commerce; and certainly the interchangeability of all our forms of money, each into the other at the will of the holder, is a necessity, for this and other reasons.

All forms of money issued by the Government should be full legal tender for all debts, public and private, in the Nation, in which case, with free interchangeability, the most convenient forms would displace the less convenient, and finally an approach to stability of form would be reached and exchanges (redemption) reduced to a minimum. If all the forms were full legal tender, exchange of one form for another would be made only for convenience or export.

When the most convenient forms had finally been selected in proper proportion, exchanges would practically occur only for export, and since gold is recognized as coinable in all the foreign laws on the subject, gold would be sought for this purpose, and the Government should be prepared to exchange gold for any and every form of money at sight.

It should also continue to exchange notes for gold as now, at least until gold should become sufficiently plentiful to require its demonetization. Even then the existing coin should be exchangeable, for it would be the duty of the Government to maintain its gold coin at par with its paper money just as it now maintains its silver coin.

The automatic flow of gold from one country where money has fallen in value to another where it has risen (sufficiently to pay cost of transportation) maintains the par of exchange by a process not generally understood.

If prices rise or the value (purchasing power) of money falls in the United States below the average abroad, an automatic movement of money abroad is set up to restore the equilibrium or par, and gold, being the one factor or element common to all currencies, is the factor that moves, and in the case cited above gold leaves the United States and raises the value of the money that remains by decreasing the supply and reduces the value of foreign money by increasing the supply, so that gold is actually used in the world to dilute or reduce the value of money by its presence and increase its value by its absence.

The notion that currency derives its value from the value of gold is erroneous. Currency derives its value solely from the relative quantity in existence, and anything that serves the currency purpose in any degree is a factor. We have several factors in our currency. In 1913 it stood as follows:

Gold	$611,000,000	
Gold certificates	943,000,000	
Total gold		$1,554,000,000
Silver	215,000,000	
Silver certificates	469,000,000	
Total silver		684,000,000
United States notes		350,000,000
Bank notes	705,000,000	
Other bank credit	17,085,000,000	
Total bank credit		17,790,000,000
Total currency		20,378,000,000

Senator REED. You count in checks?

Mr. BERRY. Count in checks, which circulate as exchanges. Anything which is in process of fact exchange is currency.

The total gold is $1,554,000,000. The per cent of gold is 7.6.

The total legal-tender money in the currency is $2,588,000,000, including gold, silver, and United States notes, as against $17,790,000 of bank credit, or 14.5 per cent, and, unit for unit, the bank credit is more efficient in effecting exchanges than is money.

If we were to suppose that any one factor fixes the value of the rest, we must give the distinction to bank credit. Certainly, if we conclude that the value of gold gives value to all the rest, then it is a case of 7.6 per cent of tail wagging 100 per cent of dog, or 7.6 per cent of dog wagging 100 per cent of tail. (Difficult to believe in either case.)

As a matter of fact, the value of the commodity gold (bullion) is fixed by the value of currency into which it may be freely coined under the laws of civilized nations, two-thirds of the entire product being thus used.

The value of the currency is fixed by the quantity offered in exchange for other things, as compared to the demand (offering of other things in exchange) for it.

The great utility of gold as money is resident in the fact that it is made by law a factor in the various currencies of the world, and affords an automatic method of maintaining the par of exchange.

We need not discuss the primary reasons for the selection of gold for this purpose; they are well understood by students of the problem, but the fact must not be forgotten—gold is the one common factor in all civilized currency systems.

Gold redemption, therefore, must be a part of the plan for an extension of our legal-tender paper circulation, and the facts as to gold are therefore very important.

First. Forty-nine and eight-tenths per cent of all our money (including bank notes) is gold or gold certificates. If we exclude bank notes, we find that 74 per cent of our legal-tender money is gold or gold certificates.

That our people prefer paper money to gold for daily use is proven by the fact that 57 per cent of all the gold in the country has been "redeemed" or exchanged for certificates. The remaining 43 per cent is mainly lying in reserves. Comparatively little of it is in active circulation in the hands of the people.

The issue of gold certificates in 1912 was $45,000,000, while only $43,000,000 of gold was added to our stock. Three million dollars of the old stock went into certificates with all the new. Gold will only be sought for export.

Second. The annual requirements for gold export average nothing. For the past 32 years we have imported an average of $5,000,000 per year.

The largest net export of any year was $89,000,000 in 1864; that was during the war. So that in an experience of 50 years the export of gold is seen to be a negligible quantity.

It would be extravagantly safe to assume that $150,000,000 might be needed for this purpose in any one year, and equally safe to assume that an average of $20,000,000 per year of gold exports would

be the limit for any extended period. For the past 32 years an average of $5,000,000 per year has been imported.

We have an annual production of $90,000,000, $60,000,000 of which is available for money, or three times the possible average export. The ability of the Nation, therefore, to "redeem" its full legal-tender paper in gold is so well assured that we need give the matter no concern.

Third. The necessary annual increment of legal tender in the country is (as we have seen in answer to question No. 2) $200,000,000 and the annual increment of gold is $65,000,000. The increment of legal-tender paper needed, therefore, is $135,000,000 per year, of which the gold increment ($65,000,000) is 49 per cent.

On June 30, 1912, we had in circulation:

United States notes	$340,000,000
Silver dollars	70,000,000
Gold certificates	943,000,000
Silver	469,000,000
Subsidiary silver	145,000,000
Total	1,967,000,000

All of which may be considered redeemable in gold.

Neglecting entirely the silver held in the Treasury as an asset, we had of gold at the same time:

In Treasury reserves	$1,093,000,000
In circulation	610,000,000
Total gold	1,703,000,000

All of which was available for redemption purposes, or 86 per cent of the total redeemable currency.

If we eliminate the subsidiary silver, and the $1 and $2 notes, no part of which can be spared from actual use, we find that more than one-half of our money is gold. In other words, we have 100 per cent of gold back of our uncovered money, of which $1,093,000,000 is already assembled in the United States Treasury for redemption purposes, and amounts to 85 per cent of our redeemable currency.

Starting, therefore, with 85 per cent of gold money in the redemption fund, and currently securing 49 per cent of gold against the new notes to be issued, we would seem to have a competent equipment with which to face a situation in which in the long run no redemption would be required, and in which in all human probability the deposit of gold in exchange for the more convenient forms of paper must increase more rapidly than in the past.

In answer to the second part of this question, I would say that the new currency should be issued by the Treasury Department in exchange for an equivalent in value of Government bonds, whenever and by whomsoever presented, the bonds to be canceled as fully paid.

The notes should be full legal tender for all debts public and private in this country, and redeemable in gold or any other form of currency issued by the Government on demand.

A minimum reserve fund of gold coin amounting to 20 per cent of all outstanding currency other than gold should be maintained in the Treasury, the same to be replenished when necessary by the sale of bonds for gold in the open market.

Since a constant increment of 49 per cent of gold automatically accompanies the proposed expansion of notes, which increment flows of its own volition into the reserve fund, it is altogether probable, if not certain, that the gold reserve will constantly increase, and no bond sale for this purpose would ever occur.

I mean a 20 per cent reserve here as a minimum. You can put it up as high as 33⅓ per cent. You can not maintain it above that and furnish the country with the money it needs.

Senator SHAFROTH. There is not enough gold.

Mr. BERRY. Yes, sir; there is not enough of it.

Now I pass to question No. 10.

If notes are issued to or by an association what should be the limit in amount of this currency for each association, and should this limit be based on its capital stock and surplus?

I now answer that question in this way.

No notes should be issued by a bank or association.

If thus issued, they can not be given legal-tender powers, and would be useless otherwise. If issued to an association or bank by the Government in exchange for an equivalent the question of capital and surplus is not pertinent.

Senator REED. Why is not capital and surplus pertinent?

Mr. BERRY. Suppose I sell you a horse for $150; I do not care whether you have any capital or assets or not, as long as you pay for the horse.

Senator REED. Yes; but we are not dealing with horses.

Mr. BERRY. We are dealing with assets just like horses, only better.

Senator REED. What kind of assets?

Mr. BERRY. Government bonds.

Senator REED. Nothing but Government bonds?

Mr. BERRY. Nothing but Government bonds.

Senator REED. Well, if you limit it to that, that is true, but if you limit it to any other medium you have a radical departure from the proposition contained in this measure. I understand you with that explanation.

Mr. BERRY. It is only when we introduce the idea of Government loaning money to the banks that the question of security enters the problem, but as a matter of fact if the money issued either as a loan (however secure) or as an equivalent to the asset (bond) surrendered, and only in answer to the demands of business, final payment will not and can not be made unless business is reduced, and business should not and will not be reduced. Therefore the security will only cover the interest payment. The final result will be a perpetual debt and interest payment by the people to the banks and by the banks to the Government (the people), and a horde of clerks to attend to an utterly useless and fruitless mass of detail.

If the money is issued, as are the gold certificates, in exchange for an equivalent, the question of capital and surplus is not pertinent, and no bookkeeping is involved.

I now come to question No. 11.

What device should be provided to force the retirement of this currency in whole or in part when the legitimate demands of trade subside?

I will now answer this question as follows: The legitimate demands of trade do not subside, and when these notes become the basis of

credit in bank reserves they can not be retired without forcing business to "subside."

If, however, it is desired to provide for the voluntary retirement of any portion of the notes—which will never occur (I think it should be forbidden)—the reissue of the bonds in exchange for the notes would be the best method.

I now take up question 12.

If a tax on this currency payable to the Government is provided, should it be graduated so as to increase with the volume of currency issued by the reserve association, or graduated so as to increase with the length of time it is outstanding?

I will answer this question as follows:

There should be no tax, graduated or otherwise, on the notes issued. The tax would be ultimately paid by the borrower, and credit is sufficiently costly already.

Senator REED. I do not like to interrupt you, because you are talking from your manuscript; but I wish you would tell me the sense of the proposition which involves the issuance of an interest-bearing bond, the deposit of that bond with the Government in order to have currency issued against it, and then taxing the currency. We take, for instance, a 3 per cent bond, and then we have a tax upon the currency of a cent and a half. Why not have a 1½ per cent bond and no tax on the currency?

Mr. BERRY. Just as well. I do not see anything in it at all. The proposition, of course, is that the country would hardly stand for the banks having all the cake, and so long as you make them give back a part of the cake in the form of a tax we have endured it. I do not see anything in it. I do not believe in the Government loaning money on any kind of an asset.

Senator SHAFROTH. It is just a circumlocution without any result. It is like this 5 per cent in the Treasury to redeem the bank notes. They send it in and then they send it out. It merely involves loss of time and loss of energy.

The CHAIRMAN. That is right; it is an economic loss.

Mr. BERRY. That is right.

I now take up questions Nos. 13 and 14, referring to the new Federal reserve banks. It is my opinion that no new banking machinery is needed. The issue of money is a Government function, and the Government is already provided with all the machinery needed for this purpose.

The conduct of general business, including banking, is a matter for the people to inaugurate and manage and should meet with as little interference from the Government as possible.

It is only where monopoly is necessarily inherent in a business activity that Government should interfere. Banking is not such an activity, and to secure publicity as to the condition of financial institutions is as far as Government should go in controlling them. Conspiracies among them for the purpose of limiting credit or fixing the interest rates should be treated as crimes and punished under the Sherman law.

Question No. 15 is:

Should such reserve associations have State banks and trust companies as stockholders; and, if so, what requirements should be made of such State banks and trust companies?

In the matter of currency issue, State banks, trust companies, and all other banking institutions should stand on an equality.

Senator REED. Let me ask you a question about that. If I understand your fundamental idea it is this: First, the Government is to issue money; second, if the bank wants money issued to it by the Government it has to take bonds, and it is your opinion that that privilege should be open to any bank, State or National. Is that your idea?

Mr. BERRY. Yes.

Senator SHAFROTH. But the bonds shall not be continued as their security, but shall be sold to the Government for the currency that is issued. That is as I understand Mr. Berry's proposition.

Mr. BERRY. Yes.

Senator BRISTOW. What kind of bonds do you refer to?

Mr. BERRY. United States bonds.

Now, referring to questions 16 to 22, inclusive, with reference to the new Federal reserve banks: In my opinion no new banking machinery is needed. It can serve no useful purpose and will involve a horde of new officers and clerks at high salaries and put an added burden on credit, which the borrower must finally pay.

The banking system of the country as now constituted, with clearing-houses in the principal cities of every "region" in the country, is competent to handle all the credit the country needs. Scarcely an individual bank in the country is handling more than half the business it could handle if reserve cash could be readily secured. Credit would be thus reduced to cost instead of increased.

Question No. 23 is:

> Should Government deposits be withdrawn from banks and placed with the reserve associations; and, if so, how should they be apportioned and what rate of interest, if any, should be paid? Within what time could this be safely done?

All Government funds, excepting possibly a small working balance, should be deposited in banks on uniform approved security at interest rates established by competition.

The absorption of money in the Treasury in times of plethoric revenue is an evil. It now causes a depletion of reserves and contraction of business. Under a new law providing for the issue of new legal tender, as I have described, the withdrawal of money into the Treasury would cause an unnecessary issue of new money which might become redundant in case of subsequent large disbursements. The Government should use the banks as other interests do.

With your permission, I will elaborate that statement a little.

Senator REED. What question are you referring to now?

Mr. BERRY. No. 23.

Senator SHAFROTH. It is his answer to the twenty-third question.

Mr. BERRY. When I was treasurer of the State of Pennsylvania I had $20,000,000 of State funds in my hands all during that period.

Senator SHAFROTH. During what period?

Mr. BERRY. During the period of my incumbency—two years.

Senator SHAFROTH. What years do you refer to?

Mr. BERRY. I refer to 1906 and 1907, during the panic. I had that money deposited in the various banks in my State, and the law fixed the interest rate at which I must deposit this money at 2 per cent and prescribed the various kinds of security I must take for it, but I was absolutely without information as to where that money was most

needed in my State. I had nothing but the importunity of the bankers to guide me. The fellow that was loudest mouthed and put up the biggest holler got the money. But inevitably as soon as I deposited that money at 2 per cent it instantly flowed to the spot that needed it most and where the highest interest was paid. I traced it. I put $100,000 in a bank in the northern part of the State, and inside of three days that same $100,000 landed in Pittsburgh. This man was paying 2 per cent for the $100,000, and he was getting 4 per cent from the Pittsburgh bank. The Pittsburgh bank would not pay my checks. They had $5,000,000 of my money and would not pay my checks. I had the severest experience I ever had in my life during that panic. I had $5,000,000 tied up, and I could not get a dollar for four months.

Senator REED. I take it, though, that your idea is that it was unjust to give advantages to a bank that did not need it when there was a bank that needed it so badly.

Mr. BERRY. Yes.

Senator REED. But I call your attention to this fact: The bank that you did let have the money was a bank that had not repudiated its checks, and when that bank put its credit back of the loan or advancement from the State treasury——

Mr. BERRY. He put his cash up—not his credit.

Senator REED. He did not put up cash with the Treasury, did he?

Mr. BERRY. Here is the thought I had in mind. Perhaps I did not express it as well as might be. It should have been this: Had I been permitted to take bids for that money, the spots in the State where the necessity was greatest would have obtained the highest interest rate.

Senator REED. Would you have let a bank have that money if that bank had repudiated your checks?

Mr. BERRY. I would have had the same security in each case. I had the bonding companies of the country behind every loan. Of course if I had been permitted to get competitive bids, at once the money would have gone to the spot where if finally went to, and the State would have got the increased interest instead of the individual bank up in the corner of the State.

Senator REED. When you let the money out, did you not have the security of the bank, and the credit and faith of the bank that got it in addition to any bonds?

Mr. BERRY. Of course I suppose I might have had that, but that was not the security the loan was made on. When a bank failed, as several did, I went immediately to the security and got the money and let them fight the bank. I had no trouble about that end of it; but the point I wanted to make was this: In distributing any amount of money at a rate lower than the prevailing rate it is bound to seek the highest rate of interest which is paid.

Senator REED. Is there not this possible danger in that, unless you put some limitation upon your rule: Let us assume—and my assumption is not made as a reflection upon the group of banks I am going to mention—but let us assume that the banks of New York should become wicked enough in case of financial stringency to conclude that they wanted to corner the money and that they should bid higher than the other banks and get all of the money of the Federal Government, take it to their banks, and keep it away from the other

banks. Might not that be a dangerous situation if the Government was obliged to send it there?

Mr. BERRY. It is no more dangerous, in my judgment, than it now is, because that is the reason the money goes to these centers. They offer more for it than anybody else. They can go to the outlying banks and get the gold and absorb the money of the country by that process. I do not think they ever did do it.

Senator REED. I may be wrong, but I thought the amount of money the Government had, taken as a whole, was the very thing we were dealing with here as a balance check of safety, if I may mix my metaphors, an element of safety in time of trouble; and that the fact that the Government could take that money and throw it into the banks in case of emergency was an element of safety. For instance, if all the banks in New York City were to close their doors the Government of the United States might deposit this money elsewhere in the country and start business going.

Senator SHAFROTH. The net balance in the Treasury on the 13th of this month, Monday, was $131,390,515.83. The Government could not lend more than that amount.

Mr. BERRY. And one-half of that is already deposited in the banks and $40,000,000 is in bank notes. They have not any money in the Treasury now, and, very wisely, they put out what they did have.

Senator REED. That does not meet my statement fairly, however. Your proposition amounts to this: First, that the Government of the United States will lend out substantially all of its money, except a small working balance; second, that that money will go all of it to one bank.

Mr. BERRY. Yes; if that bank pays the highest price.

Senator REED. If that bank pays the highest price all of the money will go to that bank, or to a group of banks, if that group of banks should pay the highest price.

Mr. BERRY. Yes, sir.

Senator Reed. Now the question I ask is whether that might not be dangerous unless there was some check, some discretion, lodged somewhere?

Mr. BERRY. Well, my theory about it is that the potentiality of the bonded indebtedness of the country for immediate coinage is the great safeguard. If you have the reserve of bank A, for instance, composed of $50,000 of actual money and $50,000 of Government bonds, which Government bonds are instantly convertible, we have stopped every possibility of a stringency.

Senator REED. But would you have enough Government bonds out?

Mr. BERRY. You can easily get that. All you have to do here in Congress is to provide for it. There is no trouble about that; that is the safeguard.

Senator REED. Your theory, then, run down, amounts to this: That in order for the Government to have a safe currency in this country it ought to keep always in debt?

Mr. BERRY. Yes; to some extent.

Senator REED. And be constantly charged with a heavy interest account.

Mr. BERRY. Not necessarily a heavy interest account, but an interest account which would be sufficient to erect a dam, if you please, so as to hinder the flow of bonds into the currency.

Senator REED. What is back of a Government bond?

Mr. BERRY. Every stick and stave in the United States.

Senator REED. What is back of the Government guaranty?

Mr. BERRY. The taxing power of the United States.

Senator REED. Then they practically amount to the same thing, except that a bond is written on a piece of paper and the other is written into the law.

Mr. BERRY. Yes.

Senator REED. Why is it necessary to have a bond at all?

Mr. BERRY. Simply to make it automatic, Senator, and take it out of the hands of anybody whose business it shall be to say when you issue money and when not. If I purchase this bond, which is a 3 per cent investment, I will hold it just as long as a 3 per cent investment is a better thing than I can get elsewhere. As soon as the demand for money puts the rate where I can get a better than a 3 per cent rate, I will slip this bond back into the currency. It will do that automatically. Nobody will have to lay awake at night to think about it; it will slip back into the currency just whenever and wherever it is wanted.

Senator SHAFROTH. That will prevent unnecessarily or unduly raising rates.

Mr. BERRY. It will prevent it absolutely. Not only that, it will prevent overinflation. That is what I meant by speaking of this dam erected by the interest rates established by the Government. You must make it to my interest to hold this or I will slip it into the currency; but let it be an interest rate which will make it difficult for me to part with it, so that there will be a resistance which the demand for money must overcome before the money can go out, and it will have a most beneficial effect.

I will now take up question No. 24:

Should every national bank be required to keep its reserve with the association to which it belongs except such as it keeps in its own vaults; or should it be permitted to keep any certain per cent of its reserve with other reserve associations? If so, how much?

Every bank, national or otherwise, should keep its determined reserve in its own vaults. It should be periodically examined, and its condition as to reserve publicly announced.

It is different as to reserves.

Senator REED. That is every national bank?

Mr. BERRY. Every national bank, and every other bank that has this issuing privilege. That is the only thing that I would require of them; that they submit to this publicity of their condition.

Senator REED. I understood you to state that you were going to give the issuance privilege to everybody that has a bond. Just let them walk up and shove the bond over the counter of the Treasury and say, "Give me some money."

Mr. BERRY. Yes.

Senator REED. Then there would be no reason for having a national bank at all, would there?

Mr. BERRY. Not so far as the currency is concerned. Here is the principle of it. Currency is a system of two parts, actual cash and coinable bonds. The storing of all the potatoes or other food in the cellar of the city hall does not increase its power to feed the people of the town unless a scarcity exists that requires restraint of the natural appetite of the people. There is no necessity whatsoever for a concentration of reserves in gold unless such reserves are in such position that restraint must be exercised upon them.

The reserve should consist of two parts—actual cash and coinable bonds. With bonds immediately convertible into cash, the cash holdings need not be much larger than the daily necessities of check redemption require.

The practice of moving the reserves of outlying banks into the centers in the vain hope that by concentrating them their efficiency will be increased, is a snare and a delusion. The storing of all the potatoes or other food in the cellar of the city hall will not increase its power to feed the people of a town, unless a scarcity exists that requires the restraint of natural appetites.

This practice only tends to increase the advantage over the outlying towns naturally held by the cities, and does not materially increase the efficiency of the reserve money.

The reserve cities are nominally required to hold 25 per cent of reserve which is reduced by central reserve deposits to a lower figure, but remains much larger than the actual demands of check redemption require, while in central reserve cities 35 per cent is required, an amount far in excess of actual needs.

If reserve money was distributed throughout the Nation in proportion to the actual demands upon it in the various communities, an equal amount of credit would be more safely carried by it; and the extremities (particularly the farming communities) would be well nourished as the trunk. "Cold feet," or scarce credit, among the farmers would not be so prevalent if the extreme ramifications of the banking system were as well supplied with reserve cash as are the centers, regional or otherwise.

Senator REED. Do you think that your potato illustration is a fair one?

Mr. BERRY. It will not do to test any analogy too closely.

Senator REED. The analogy that can not be tested ceases to be valuable. What we want in the nature of a reserve is something to draw upon in order to redeem obligations that are out. One dollar in a bank may pay $100 before the dollar has actually gone, but your potato illustration is different. Once the potatoes are gone out they are consumed; they do not circulate.

Mr. BERRY. Well, that illustration halts, I am free to confess, but I think it illustrates my point. This is a subject I have not found possible to illustrate to any great extent. It is so thoroughly unique that a good illustration is exceedingly difficult to find.

Now, as to questions Nos. 25 to 31 I have no suggestions to offer as to the management of reserve associations. They are, to my mind, entirely unnecessary.

Referring to question No. 32:

Are you familiar with the recommendations of the National Monetary Commission made to Congress in January, 1912? If so, what is your opinion of the plan, and what modifications would you suggest, if any?

I am familiar with the recommendations of the National Monetary Commission. My opinion of the plan can be inferred from what I have said in answer to the other questions.

The plan involves a lot of useless machinery and will serve no useful purpose unless the fundamental principles of sound finance are violated by giving a credit note the power to stand in reserve as a basis for further credits. This, to me, is a monstrous proposition from whatever source it emanates.

Question No. 33 is the last. It is a very long one, but it proposes a plan, and I say the plan proposed here is more nearly correct than the Aldrich plan, to my mind.

Instead of calling the new Treasury division a reserve division, I would call it "The division of issue and redemption."

Its assets should consist of the gold and silver now held in the Treasury as trust funds or redemption funds and such other gold as may flow to it naturally in exchange for legal-tender paper currency or to be forced to it by the sale of bonds for gold in the open market.

This division should exchange any kind of legal-tender money for any other kind desired and destroy worn-out notes or defaced coins and replace them with new.

It should exchange new United States notes for Government bonds (when voluntarily presented) at the market price and retire the bonds.

It should maintain a minimum reserve of 20 per cent of gold against the total of all other forms of legal-tender money and furnish gold for export in exchange, and only in exchange for notes, the notes to be withheld from circulation until exchanged for gold on the voluntary solicitation of the holder of the gold, or in exchange for bonds in lieu of new notes.

By this process the volume of legal-tender money can only be changed by the surrender of bonds, and proceeds on the assumption that a Government bond bearing the current rate of interest will not be surrendered unless the demand for credit tends to raise the interest rate, which is a sure indication that more money is needed, and when thus issued will never be retired unless the developments of the country cease.

Under the operation of such a law the bonds bearing the lowest interest rate (2 per cent) would naturally be exchanged first; and the first effect would be to retire the bank notes, at least to reduce them to a volume where they would not be redundant and their redemption a burden.

The privilege of note issues by the banks, if continued at all, should be continued upon the 2 per cent bonds being held as security for them, and they should be stripped entirely of legal-tender powers. By a gradual process the bank notes would disappear and with them the 2 per cent bonds.

A volume could be written as to the advantages to be realized from the adoption of this plan, but I forbear.

Much could also be said as to the danger imminent under the present system, but here I also forbear.

Now, gentlemen, that is all I have prepared to set before you.

Senator BRISTOW. Now, just before you go on I would like to ask this question: How do you get the gold into this reserve? You put the minimum at 20 per cent.

Mr. BERRY. Yes.

Senator BRISTOW. How do you replenish that? Of course, it would be more than that as a rule, would it not?

Mr. BERRY. Yes; at the present time it is about 85 per cent, and I apprehend that it will ultimately fall to 33⅓ per cent unless the supply of gold production should very greatly increase.

Senator BRISTOW. Suppose it went down to 20 per cent, what would you do to get gold?

Mr. BERRY. By the sale of bonds. We would have to sell bonds in the markets of the world to secure the gold. We have redeemed the bonds and gotten the money out.

Senator BRISTOW. Do you think that with 20 per cent there would not be danger of a period coming when there would be a lack of confidence in these bonds and they would go below par?

Mr. BERRY. No, sir; I do not. I spoke of that as a minimum for this reason: To my mind it seems to have been neglected by most of our people, but it has come to be the duty of the United States to finance the world. We are the greatest Nation on earth, and nearly one-half of the business of the nations of the world is done in this country. Three-sevenths of the entire banking power of the world is in this country, and it has come to pass through the natural adjustment of the growth of civilization that this country is at the head of the procession.

We have South America, Africa, China, and India soon to demand a larger volume of money than has ever been conceived of in our wildest imagining, and it is my judgment that the United States must largely finance those countries. We have the money; we have the resources; and it is up to us to do it. When you come to world finance nothing but gold will do. We are producing an increment of gold yearly which will maintain all the currency that we wish to use on about a 33⅓ per cent basis. We therefore can very readily spare a billion and a half gold to finance the rest of the world; and ultimately we will be called upon to furnish it.

Senator BRISTOW. Suppose this reserve went down to 20 per cent and some speculators got control of a very large amount of these notes. They would come here and demand the money; the Government would have to pay the gold. It puts its bonds on the market and the gold is cornered somewhere, so that they would hold the Government up for heavy interest rates on the bonds in order to get gold; and then, after the bonds have been sold and they got the bonds, furnished the gold, why, of course, they would have made their speculation and the price of gold would at once go down.

Mr. BERRY. I can imagine such a condition as that, but I can not conceive how it can ever practically happen. There is $1,700,000,000 of gold in the United States, the largest amount of gold ever assembled in any country in the history of the world. There is no considerable number of people in this world—that is, there is no small number of people, no number of people involving less than 1,000—who could make any impressionable dent on that gold.

It is a practical impossibility that the gold could be cornered now. It has been cornered in times past. It can not be now; the supply is too great.

That is the reason that I read so carefully to the committee the status of the gold situation, to impress your minds with the fact that

at this time in the history of the country gold is so abundant that the fear of its being cornered may be absolutely dismissed. It is a practical impossibility. I can imagine, of course, just as you have, what might be done under those circumstances; but it is out of the question for it to occur.

And, moreover, in the process of incurring the obligation involved in issuing redeemable paper the Government has withdrawn an equivalent of bonds, upon which it has ceased to pay interest, bonds upon which it now pays $25,000,000 a year interest; in the course of a few years the saving of that $25,000,000 would be sufficient to enable us to go into any market of the world and beat any combination on earth, and get all the gold we want. We, as a matter of fact, must now be viewed, as a Nation that is master of the situation.

Senator BRISTOW. But you must admit, of course, that if it were possible for the speculators to get control of the gold they could force the Government to bid very high in order to get it.

Mr. BERRY. Surely, I will admit that.

Senator REED. Now, your idea is a currency issued and based upon bonds, and that if a man wants this currency he has got to go and buy a Government bond; then he can deposit the bond and draw currency. And in that way, if we had plenty of bonds out, there would always be plenty of money, because when money was needed they would invest in these bonds.

Mr. BERRY. Yes, sir.

Senator REED. So that takes care of the matter of expansion, in your judgment?

Mr. BERRY. Yes.

Senator REED. And now, when the money becomes less needed, they would prefer drawing interest on the bonds and go back with the money and take the bonds out.

Mr. BERRY. That is in answer to the assumed necessity for that retirement. My own judgment about it, after years of close study, is that they ought not to be granted any such privilege. You should put the restraint entirely upon the issue; but once issued, let it stay there, let no man retire a single dollar of legal-tender money under any consideration. That is my own judgment. But I would not seriously object to your providing for the reissue of the bond in exchange for the money in case the money should become redundant.

Senator BRISTOW. And that money, when you took these notes and bought the bonds, the note would go out of circulation and the bond go in?

Mr. BERRY. Yes; that is a means of contracting the currency. I would personally oppose it, however. In my judgment we should not allow any man, or any set of men, to cancel a single dollar of legal-tender money, for as soon as you do you make trouble, for your price level is adjusted to it, your business community assumes that it is there to stay, and expands business upon it; and if it is retired, it means the contraction of your credit and business, and it puts you in greater danger of a corner of gold than anything else will. You need have no fear of that; but you now have this great danger: It is now possible for one man to go in the banks of New York on any afternoon and deposit his check for $10,000,000, then take the $10,000,000 out of the paying teller's window and carry it around and put it in the safe-deposit vault, and on the next morning $40,000,000 of credit must come down in the city of New York.

The CHAIRMAN. It is absolutely the fact.

Senator REED. How do you mean, "must come down?"

Mr. BERRY. Because the reserve fund is at the ragged edge all the time: and the next Monday morning the banks are $10,000,000 below in their reserve fund, and they have got to call their credit: that means a loss of $40,000,000 of credit, four times $10,000,000.

Senator REED. Why do they have to withdraw $40,000,000?

Mr. BERRY. Because the ratio of credit to reserve funds in New York City is four to one.

The CHAIRMAN. It is $1,600,000,000 of these loans against $400,000,000 of money.

Mr. BERRY. Now, if you have a bond in reserve, that bank, instead of answering to that pressure on the part of the schemer who has withdrawn his cash in order to force a contraction of the credit and the destruction of prices on the stock market, can instantly in that case put his bonds in and secure cash and everything is all right. The knowledge that a potential supply of cash in the form of bonds is always available will stop this practice.

Senator REED. That is, if he has got the bonds?

Mr. BERRY. If he has got the bonds, yes; and we propose to see that he shall have them.

Senator REED. Have you got a plan outlined in your paper which you have prepared of your views of what ought to be done?

Mr. BERRY. No, I have not got any specific statement of plan here. I have simply outlined the principle this far that underlie my thought.

Senator REED. Well, when you are through answering questions by members of the committee, I see you have a paper and I assume you have some plan.

Mr. BERRY. Yes, I have a paper directly bearing on this bill which is pending, and applying these principles to it.

Senator REED. To this bill?

Mr. BERRY. Yes.

Senator REED. I do not see how you are going to apply the principles that you have just announced to this bill any more than you are going to put a square peg in a round hole.

Mr. BERRY. If you apply a bunch of dynamite to a hole in a stone, you know what will happen. [Laughter.]

Senator REED. That kind of application, of course, is possible.

Senator SHAFROTH. Mr. Berry, I thought you said in your prepared statement that the credit was built up upon this money at the ratio of 10 to 1.

Mr. BERRY. In the country at large the rate is 10 to 1; in New York City it is 4 to 1. Now, if that were done in an outlying town, the situation would be that much worse—and it can be done in outlying towns, and I am not sure that it has not been frequently done. It has been done in New York. I have the record to show you that it has been done in New York. My book shows just how it was done.

Senator SHAFROTH. Mr. Alling, vice president of the Nassau Bank, gave the figures as to the amount of their reserves and the amount of their deposits, but I think it was about at the rate of 12 to 1.

Mr. BERRY. Actual issue; yes.

Senator SHAFROTH. In that one case——

Mr. BERRY (interposing). But you know the way they are counted.

Senator SHAFROTH. Yes.

Mr. BERRY. Is the case you spoke of in a central reserve city—is he a New York man?

Senator SHAFROTH. Yes; that is in New York City. Of course, they are bound to keep 25 per cent.

Mr. BERRY. At any rate, I give them credit for 25 per cent. If the ratio should be 12 per cent, the credit would be eight times the amount of money instead of four times.

Senator REED. Mr. Berry, what I am interested in having you do is to put on a piece of paper, without note or comment, the outline material of what you say ought to be done, not with the proposed bill, but with the present situation.

Senator BRISTOW. Would it not be better to have him leave that until he gets through with this subject?

Mr. BERRY. Well, as I have said, Senator Owen, chairman of this committee, has introduced a bill to provide for the retirement of the 2 per cent bonds to meet this situation, and Senator Shafroth has introduced another bill upon the subject. I am rather inclined to think that of the two measures I prefer Senator Shafroth's bill, because it is more frank and direct and will solve this problem. Either one of the bills I think will do that.

Senator REED. Without doing anything else?

Mr. BERRY. So far as I can see, yes. It might need a word or two of change, but the principle involved in both of those bills is the principle I am advocating, and it will furnish the opportunity for the expansion of the currency in response to the demand for it.

Senator SHAFROTH. Here is an article [indicating paper in the Senator's hand] that was written by Mr. Alling, the gentleman I have just referred to, which is upon the same basis exactly. I wish you would read that, Mr. Berry, during the recess of the committee, because it suggests this very plan.

Mr. BERRY. Well, I am very glad to know that there are other people who agree with my views. In fact, my experience has been that there are. I have been a student of this question for 30 years. I have delivered many lectures before bankers' associations and elsewhere and have had many conversations with eminent bankers and others interested in the subject, and I have never found a man who had given sufficient consideration to it, who had fastened his mind upon the fundamentals, who did not agree with me in regard to it. I have not found a single man who has given the matter thought for a sufficient period who did not, and I have a letter from Mr. Andrew Mellen, the president of the Mellen National Bank of Pittsburgh, which is one of the most complimentary letters I have ever received.

Senator REED. Do I understand you to say yourself that all that it is necessary to do is to retire the greenbacks——

Mr. BERRY (interposing). You mean the bank notes, do you not?

Senator BRISTOW. The bank notes. The bank notes are a substitute for or an enlargement of the greenbacks.

Senator REED. Please wait until I get my sentiments expressed—is to retire the bank notes and greenbacks and the Treasury notes and every form of paper money, and have an issue in lieu of it as a new Treasury note, and hold back of it the gold reserve that we now have, which is the $1,100,000,000 that is back of the gold certificates

and the gold that we now have back of the greenbacks, and that will constitute the money of the country?

Mr. BERRY. Practically so, yes. I do not think you need a new Treasury note. Your present Treasury note is good enough. Just extend it.

Senator REED. Well, I think you can not bring in the gold certificate, which is now good for a dollar of gold and which has been described as a warehouse receipt for a dollar of gold, unless you would do it by calling that note in and redeeming it and issuing some note that would not profess to be merely a certificate by the United States that it holds 100 cents in gold.

Mr. BERRY. You will find the details of that kind in this little book. I have planned as I would propose to do it of my own initiative. I do not propose to upset your scheme, but what I wanted was to get this idea of the utterance of notes which are competent to stand in bank reserves incorporated in it or in a separate bill.

Senator REED. Well, in addition to that, Mr. Berry, your idea is that for the future needs of the country we would provide a Government bond carrying a sufficiently attractive rate of interest, so that it would be purchased by people as an investment; and then provide that anybody who had one of those bonds could go down any day and turn it into the Treasury, and if it was a $1,000 bond, get $1,000 of these notes?

Mr. BERRY. Yes, sir; practically so. I would not fix it, however, at the face value of the bond.

Senator REED. Where would you fix it?

Mr. BERRY. At the market prices.

Senator REED. At the market prices?

Mr. BERRY. Yes; because it would throw you out if you put it at the face value, because the 3 per cent bonds would probably sell below par. If it did, it ought not to be convertible at par. If it was a 5 per cent bond and sold above par, it ought to be convertible above par. In other words, it ought to be convertible at its monetary market value.

Senator REED. Then, if bonds went up to 120, a man could come down with that sort of bond and get $1,200 on it, if it was a $1,000 bond.

Mr. BERRY. Yes, sir.

Senator REED. And the Government would be losing that 20 per cent. It sells the bond at its face value and redeems it at 20 per cent premium.

Mr. BERRY. It may have sold it at its face value, and it may not. It would depend upon what the circumstances were. If you issued a 5 per cent Government bond now and sold it in the open market, it would bring a premium. In other words, the natural interest rate should determine the price of a first-class security and it does, outside of the privilege granted to our 2 per cent bonds.

Senator SHAFROTH. If a man could get the amount of the premium out in the market, he would not think of coming to the Treasury of the United States and taking a lesser premium on the bond.

Mr. BERRY. Certainly not.

Senator REED. Well, I am not so sure about that. I have in mind the fact that it is a common thing for the Government of the United States to sell a bond at par, and then find that the bonds have gone up the next day, or within a week, very materially.

Mr. BERRY. That has happened.

Senator REED. Yes; and it looks to me as though there might be an influence brought about that could put a Government bond up pretty high, if it wanted to, and then come down and have the Government redeem it.

Mr. BERRY. Well, that is a detail that perhaps would have to be discussed.

Senator BRISTOW. Well, suppose 3-per-cent bonds were issued, would there be a sale when money is scarce and rates are high—there would not be a sale for 3-per-cent bonds, then, would there?

Mr. BERRY. There would, at a discount.

Senator BRISTOW. Well, I mean at par. Suppose they were sold at par. If they were convertible immediately, however, at par, they would sell at par, would they not? That is, if it was a 3-per-cent bond and I could buy a $1,000 bond that drew 3 per cent, and this morning or this afternoon or to-morrow I could go to the Treasury and exchange that bond for $1,000 of legal-tender notes, and I could loan those notes for 5 per cent. I could take that process, could I not?

Mr. BERRY. Yes.

Senator BRISTOW. How would it relieve a stringency unless the bond were out?

Mr. BERRY. Well, there is $1,000,000,000 of the bonds out now.

Senator SHAFROTH. A little over that since the Panama bonds were issued.

Mr. BERRY. Over $1,000,000,000; and we are going to issue more on account of the Panama Canal; and in my judgment we ought to issue more on account of inland waterways, and other public improvements. I see no reason why there should not be a constant modicum of bonds. The annual increment of paper money required now is $135,000,000, so that if you have twice or three times that amount constantly outstanding it would be sufficient. If you have that amount as compared to $1,000,000,000, as you now have, that would be all you would want, because you only require $135,000,000 to supply this deficiency of currency each year. Your present bond issue would last you for several years. The bonds will not disappear any faster than the demands of business call for more money; and your present bond issue would carry you for several years.

Senator REED. I am so much of a farmer on this question that there is one bit of it that is an utter maze to me, and I want somebody to take me up on the mountain and show me the elasticity of it. I understood you to say a little while ago that all there was back of a Government bond was the faith and credit of the United States, but that that faith and credit involved all the property there was, private or public, in the United States.

Mr. BERRY. That is right.

Senator REED. Now, a bond is nothing but a guaranty by the Government; that is all. We call it a bond, but it is nothing more than a promise to pay.

Mr. BERRY. Yes.

Senator REED. Now, if the Government can issue its promise to pay and upon that promise to pay can issue another promise to pay, in the shape of a note which we call currency, why is it necessary to have the bond at all? Back of both is the same thing, the faith and credit and property of the United States.

Mr. BERRY. That is the very consideration, Senator Reed. The only reason why you need the bonds in the process is to safeguard you against an overissue of this currency.

Senator REED. Well, can not we conceive that the United States Government—the Treasury Department—can restrain itself from running away, unless we hobble it in this way?

Mr. BERRY. But you see you are up to either one of two things. You must let this money come out automatically or artificially. Yours is the artificial method. You put it into the hands of some man or set of men to determine where, and when, and how much money shall come out. On the other hand, you should let the automatic forces of trade call it out. The bond is a part of that machinery.

Senator REED. I get your meaning. In other words, when the demands of trade call for money, more money than the interest of these bonds bring, then the man will sacrifice his bonds or sell his bonds in order to get the money, so that the check which the bond puts is simply this, that whenever the interest rate the Government pays is less than the interest rate that money will earn, then people will exchange these low interest-bearing securities for the higher interest-earning money. That is about it, is it not?

Mr. BERRY. Well, that is close to it; but it has one error. The interest rate denominated in the bonds, say 3 per cent, that is the interest rate that the Government pays on the face of the bond. But the exigencies of trade will vary that interest rate, and cause that bond to sell for less or more than its face value, as the case may be.

Senator REED. Yes.

Mr. BERRY. And that interest rate may be higher or lower and the proper interest rate can only be determined by allowing the forces of trade free play, and letting them establish what this interest rate is. It is matter of impossibility for any man or any set of men to tell what the interest rate ought to be.

Senator SHAFROTH. Interest rate on the bond will always be less than the current rate in the market, will it not?

Mr. BERRY. Not necessarily, if that bond is denied the special privilege of note issues, as our present bonds are.

Senator REED. Pardon me, Senator Shafroth, for interrupting you.

Senator SHAFROTH. Certainly.

Senator REED. But let me get this particular thing into my head. But the thing that constitutes a check upon inflation is the fact that the form of security in which a man has his money invested ceases to be as profitable to him or as useful to him as a Government note. That is true, and that check, that sacrifice which must be made, is sufficient, in your judgment, to keep down inflation?

Mr. BERRY. Yes.

Senator REED. Now, then, why must we have Government bonds in order to get that check? Why is it not practically assumed, now that a safe plan is worked out, that we might as well issue this money upon the bonds of cities and States and upon the promissory notes that the individual holds—the promissory notes of another—assuming now that we get that in shape so that that could be done? Why would not that furnish the same check? I have got a 3 per cent bond here of the Government—or, I will say, a 6 per cent bond of the Gov-

ernment—I have got an 8 per cent note of A B, and A B is sound and good. But I need the money. I have got to have money. Now, if I take my 8 per cent note of the individual the sacrifice is just as great, and a little greater, than if I would take my Government bond. The check upon my desire to have money issued by the Government is just as great.

Now, why is it that a bank might not just as well take the notes of its customers which draw 6 per cent, probably, on the average, over the country; take those down to the Federal Treasury and say, "Here is $1,000,000; it is drawing 6 per cent; I want some money," and get it? I am assuming now that a safe plan is worked out.

Mr. BERRY. I have no doubt but that is just as equitable, except as to this, that it puts the Government directly in the banking business. This note is now an asset of the Government and the Government is going to collect interest from an individual.

Senator REED. No.

Mr. BERRY. And to renew that paper when that individual wants to renew it, or else contract the currency.

Senator REED. I do not think you are right about that at all. We all want to get right. Nobody here ought to have any pride of opinion.

Mr. BERRY. That is right.

Senator REED. I am willing any minute to take back anything I have said the minute before as long as this conference lasts, if somebody convinces me that I am wrong. You run a bank. Let us say it is a great bank, a bank which has $2,000,000 of stock and with $10,000,000 of deposits. And suppose I am the Secretary of the Treasury—for a moment. You need $1,000,000. You take $1,000,000 of the paper in your bank, and you come down and ask me to issue to you $1,000,000 of money, and you deposit that $1,000,000 of paper. I issue you the $1,000,000 of money. I charge you for that money, say, 7 per cent, just for the sake of illustration. Now, I do not have to collect those notes that you put up with me. You have got to pay me back; you have got to redeem that money I gave you. You will collect $1,000,000 in and bring it down to me. I do not have to necessarily go out and collect these notes from A, B, or C, do I?

Mr. BERRY. No, not under that supposition. But you are not issuing money at all under that supposition. When those notes are paid back to you, you are just where you were before.

Senator REED. It comes back to just where it went in, and I have not increased it at all. So that it is safer against inflation than it would be if you put the bond in and issued the money permanently.

Mr. BERRY. Safer, if you insisted upon the payment. But the point is that the plan as outlined, will result in a perpetual chain of new people coming in and old people going out.

Senator REED. Will not that be the same thing with your bond?

Mr. BERRY. Oh, no.

Senator REED. Now, let us see why it will not. I am still the Secretary of the Treasury for the moment.

Senator SHAFROTH. We will indorse your bond. [Laughter.]

Senator REED. Yes. In view of some of the men who have held that position in the remote past, anybody can without the slightest

compliment to himself assume that he holds it. And yet I ought not to have said that, perhaps, because they have been mostly good men; one or two wild-catters.

But suppose I issue Government bonds to the amount of $1,000,000. You are a banker. You have got money in this big bank of yours. You notice that I am giving you all the best of it. I am giving you the money, and I am just holding the position.

And you come down with that surplus of money that you have, and you buy $1,000,000 worth of those bonds from me, and you take them and put them in your vaults. Some day you need money and you come down to me with that $1,000,000 and say, "Here is that $1,000,000 of bonds that I paid you $1,000,000 for and I want that $1,000,000 back." I do not know why that does not——

Mr. BERRY (interposing). There is all the difference in the world, Senator Reed, because when I gave you——

Senator REED (interposing). The money went just where the other did, did it not?

Mr. BERRY. Oh, no. I gave you $1,000,000 for the bonds, and I got the bonds, and then you spent the $1,000,000 to build the Panama Canal. You have not any money now at all; that money I gave you is in circulation again, having come out through the channels of trade.

Now, I come to you and say "Secretary, here are your bonds. Give me $1,000,000." Then you give me a million dollars of absolutely new money; you grind your printing presses and give me $1,000,000 of new money. You add to the circulation by doing that. In the other case you do not.

Senator REED. Yes, I do it. You bring me in the notes; and I grind out of the printing presses $1,000,000 and give it to you for those promissory notes of A, B, and C.

Mr. BERRY. Then you have to have a perpetual motion of——

Senator REED (interposing). But I take them up quicker than we might in this other way.

Mr. BERRY. It would surprise me of they were ever taken up at all.

Senator REED. Well, just as quickly as they are taken up from your bank the same condition arises again, as a necessity for money, and another bank brings them in, and you do inflate in order to meet the immediate demands of business; and you do retire the circulation as the demands of business are less. I can not see why it is necessary to have a Government bond.

Mr. BERRY. Well, it is not necessary at all, but I think it is more desirable.

Senator SHAFROTH. Under your scheme, Senator Reed, would it not make the United States the purchaser of all municipal and State bonds and other security which the banks have when they wanted the money?

Senator REED. For the temporary purpose, but with the burden attached so great——

Senator SHAFROTH (interposing). What is that burden?

Senator REED. The interest I am charging that bank upon that money that I let it have, and which it can only escape from when

it brings me back that money or exactly the same kind of money issued to some other bank. Now, that is the feature which is contained in this bill. There is nothing new in it whatever. I can not see why we have to have Government bonds under your plan.

Mr. BERRY. I do not think you have to have them. I simply say you should have them in preference to other forms of security, for the reason that you have a public obligation there, and some body is going to be benefited by the fact that this money when it goes into circulation will stay in circulation and never be presented for redemption. It becomes a permanent part of the equipment of the Nation and the people should benefit by it and not any individual or a bank or anybody else.

Senator REED. Are you not mistaken in saying that it stays out in circulation without limit?

Mr. BERRY. No, sir.

Senator REED. Well now, the Government issues $10,000,000 of bonds, and sells them upon the market, and it gets $10,000,000 and goes out and spends that; it is not a very desirable thing to be doing now, by the way; but let us assume that it does it. You get this $10,000,000 of bonds. You bought them because at the time you bought them the interest made it desirable for you as an investor. There comes a time when there is a money shortage. You need money and have to have it. It may be that you have to have that money only because there is a run on your bank; and you may not need it more than 30 days. You bring your $10,000,000 down to the Government of the United States, and it starts its printing presses whirling to print you $10,000,000 of money; and you have put your bonds over here with me as Treasurer. The crisis passes; interest drops in the country; you have got a surplus in your bank. Are you not very likely to come down and buy back that $10,000,000 of bonds?

Mr. BERRY. You are, if——

Senator REED (interposing). Now, when you do that, you have done exactly the same thing that you would have done if you had put up the promissory note that you had in your vaults with me and come and retired the money. When you bring me back $10,000,000 of this money to buy the bonds back, I put it in my vault. I have got it there, and I have not been wasting it, any more than I would the other money. Do you not come out of the same place, except in one case you pay interest all the way along, and in the other way you collect interest.

Mr. BERRY. I think you come out practically in the same place; but at the same time not just that way. You are saving interest instead of paying it, because you are canceling a bond to get this money out. My thought is that with the sacrifice of a bond as a condition precedent the money would not issue unless needed in business, in which case it would not come back unless business subsided.

Senator REED. In the other case you are charging interest to let the money out.

Mr. BERRY. In the other case you are putting the Government directly in the banking business, which I do not consider desirable.

Senator REED. I want to ask what is the banking business?

Senator BRISTOW. Pardon me for interrupting, but I just want to understand this: If a bank takes $1,000,000 of its collateral, it has

notes and bonds which would draw interest of from 5 to 6 per cent—varying rates. Now, what interest is it proposed that the banker shall pay the Government for the money which he gets with his collateral? As I understand, the Government is to turn back the collateral when the money is returned. That was your suggestion, Senator Reed. I say, what interest do you propose that the Government shall charge the banker when he brings this collateral for the money which the Government lets the banker have?

Senator REED. Pardon me, I did not know you were addressing that question to me. Will the stenographer read the question?

(Here the stenographer read the last preceding question as follows:)

Pardon me for interrupting, but I just want to understand this: If a bank takes $1,000,000 of its collateral, it has notes and bonds which would draw interest from 5 to 6 per cent—varying rates. Now, what interest is it proposed that the banker shall pay the Government for the money which he gets with his collateral? As I understand, the Government is to turn back the collateral when the money is returned.

Senator REED. I understand the question now. That is enough. I have no plan, Senator Bristow. I was simply trying to parallel Mr. Berry's bond plan with this other plan that has been suggested in this bill and variously elsewhere.

But the rudiments of the plan, as I understand it, Senator Bristow, are these: That the Government when it issues this money will fix a rate upon it so high that it is to the interest of the bank, as speedily as possible, to redeem it and take it up.

Now, a suggestion was made the other day, which struck me as having a good deal of sense in it—although again I say that I am liable to change my mind if somebody gives me a reason—and that was that if the Government was called upon to issue money and it set aside a certain amount, let us say $25,000,000, that might go out at a certain rate of interest—let us say, for illustration, 5 per cent. That if another $25,000,000 was called for, it would make that 6 or 7 per cent; and that every time there was more money called for the rate would go up.

Thus, by the constant rise of the rate, putting a check upon the demand so as to keep it within reasonable limits all the time.

Now, I understand, without knowing much about it, that that is the system that has been pursued in every case, that when they have emitted a certain amount of this paper, they raise the rate, and keep on raising the rate until it becomes practically prohibitive, and thus stop it.

Mr. BERRY. Will it not be better to allow me to read the rest of this paper and get over with this thing, so as to get my views fully before you?

Senator REED. Oh, certainly.

Mr. BERRY. In reference to the Glass bill, which is a duplicate of the Owen bill, would say that I have examined it carefully, and while the answers I have made to the Senate's questions will indicate my view on the general subject of central banks, I would say that I would be willing to endure almost anything in the way of detail in order that the basic principle might be incorporated.

I am not at all sure that the provision requiring national banks to invest a part of their capital in the stock of Federal banks at a maximum return of 5 per cent will not cause a number of them to

surrender their charters. It certainly will unless a compensatory benefit is to be derived from the use of the rediscounting privilege, and I do not see how this is probable or even possible.

As I understand the friends of the Owen bill, their thought is that the assembling of reserves in the Federal banks will furnish an added basis for rediscounting, and therefore help the situation. They are also depending upon the deposit of Government money in the Federal banks as a basis of further credit.

The following analysis and comparison of the Owen bill and the present law seems to me to indicate that this hope, based either upon the accumulated reserves or Government deposits, must prove delusive, and I submit the same for your consideration. (Reading:)

Example of the country banks under the new law.

Supposed deposits		$100,000
Reserve required (15 per cent)		15,000
Held intact in home banks (5 per cent)		(5,000)
Deposited in reserve city banks (5 per cent)	$5,000	
Reserve required here (20 per cent)	1,000	
Held intact (10 per cent)	(500)	
Deposited in central reserve banks (10 per cent)	$500	
Reserve required here (20 per cent)	100	
Held intact (10 per cent)	(50)	
Deposited in Federal reserve banks (10 per cent)		50
Deposited by home banks in Federal reserve bank		5,000
Held intact by Federal reserve banks (33⅓ per cent)		(1,683)

Total held intact against $100,000 deposits in country banks:

$5,000+500+50+1,683=$7,233 or 7.2 per cent

Total individual deposits in all country banks in 1912		$3,309,515,000
		.072
		6,619,030.000
		231,666,050.00
Total actual reserve held intact against deposits in country banks in 1912		$238,285,080

Example of country banks under the present or old law.

Supposed deposits		$100,000
Required reserve (15 per cent)		15,000
Held intact in home bank (6 per cent)		6,000
Deposited in reserve city banks (9 per cent)	$9,000	
Required reserve (25 per cent)	2,250	
Held intact (12½ per cent)	1,125	
Deposited in central reserve banks (12½ per cent)	$1,125	
Required reserve (25 per cent), all intact	280	

Total held intact in reserve:

$6,000+1,125+280=$7,405 or 7.4 per cent

Total individual deposits in all country banks in 1912	$3,309,515,000
	.074
	13,238,060.000
	231,666,050.00
Actual reserve held in and for country banks under old law	$244,904,11
Actual reserve held in and for country banks under new law	238,285,08
Actual saving or release of reserve money under the new law on account of country banks	6,619,030

Mr. BERRY. That is the net result of the application of the new law as over the old law to the country banks.

Senator REED. The whole country?

Mr. BERRY. The country banks.

Senator REED. For all the country banks?

Mr. BERRY. That is, national banks.

Senator REED. All of the banks outside of the reserve cities?

Mr. BERRY. Yes.

Senator REED. That is, the three reserve cities?

Mr. BERRY. Yes, sir—no; the reserve cities and the central reserve cities—all of them.

Senator REED. That is what I am trying to get at—whether you say this is held outside of the reserve cities.

Mr. BERRY. Central reserve cities.

Senator REED. You say reserve cities?

Mr. BERRY. All that is held in the country banks, as distinguished from reserve banks and central reserve cities.

Senator REED. All that is outside of these reserve city banks and central reserve city banks.

Example of reserve city banks under the new law.

Supposed deposits		$100,000
Required reserve (20 per cent)		20,000
Held intact in reserve city bank (10 per cent)		(10,000)
Deposited in central reserve bank (5 per cent)	$5,000	
Reserve required here (20 per cent)	1,000	
Held intact here (10 per cent)	(500)	
Deposited in Federal reserve bank (10 per cent)		500
Deposited in Federal reserve bank by the reserve city bank (5 per cent)		5,000
		5,500
Held intact in Federal reserve bank (33⅓ per cent)		(1,832)

Total held intact:

$10,000+500+1,832=$12,332 or 12.3 per cent.

Total individual deposits in reserve city banks in 1912		$1,383,813,000
		.123
		4,151,439,000
		27,676,260,00
		138,381,300,0
Actual reserve held in and for reserve city banks under the new law		$170,208,999.

Example of reserve city banks under the old law.

Supposed deposits		$100,000
Required reserve (25 per cent)		25,000
Held intact (12½ per cent)		(12,500)
Deposited in central reserve banks (12½ per cent)	$12,500	
Required reserve (25 per cent)—all held intact	(3,125)	

Total held intact:

$12,500+$3,125=$15,625 or 15.6 per cent.

Total individual deposits in reserve city banks in 1912		$1,383,813,000
		.156
		8,302,878,000
		69,190,650,00
		138,381,300,0
Actual reserve held in and for reserve city banks under the old law		$215,874,828
Actual reserve held in and for reserve city banks under the new law		170,208,999
Actual saving in reserve money under the new law		45,665,829

Example of central reserve banks under the new law.

Supposed deposits		$100,000
Required reserve (20 per cent)		20,000
Held intact (10 per cent)		10,000
Deposited in Federal reserve banks (10 per cent)	$10,000	
Held intact here (33⅓ per cent)	3,333	
Total held intact: $10,000+$3,333=$13,333 or 13.3 per cent.		
Total deposits in central reserve banks in 1912		$1,056,704,000
		.133
		3,170,112,000
		31,701,120,00
		105,670,400,0
Actual reserve held in and for central reserve banks (1912)		$140,541,632,000

Example of central reserve banks under the old law.

Supposed deposits		$100,000
Required reserve (25 per cent)		25,000
Held intact (25 per cent)		25,000
Total deposits in central reserve banks in 1912		$1,056,704,000
		.25
Actual reserve held in central reserve banks under the old law		264,176,000
Actual reserve held in central reserve banks under the new law		140,541,632
Actual saving of reserve money in central reserve banks		123,634,368
Actual saving of reserve money in reserve city banks		45,665,829
Actual saving of reserve money in country banks		6,619,030
Total reserve money apparently released		175,919,227

Example applied to all new banks under the new law.

Total reserve required to be held for central reserve banks	$140,541,632
Total reserve required to be held for reserve city banks	170,208,999
Total reserve required to be held for country banks	238,285,080
Total reserve required to be held in all national banks in 1912	549,035,711
Total deposits held in all national banks in 1912	5,719,156,000
Per cent of reserves to deposits	9.6

Example applied to all banks under the old law.

Total reserve required to be held for central reserve banks	$264, 176, 000
Total reserve required to be held for reserve city banks	215, 874, 828
Total reserve required to be held for country banks	244, 904, 110
Total reserve required to be held in all national banks in 1912	724, 954, 938
Total deposits held in all national banks in 1912	5, 719, 156, 000
Per cent of reserves to deposits	12. 6
	724, 954, 938
	549, 035, 711
Actual money apparently released from national bank reserves	175, 919, 227

Reduction of general reserve: 12.6 per cent − 9.6 per cent = 3 per cent.

In this process there will have been absorbed into the Federal banks a part of the reserve money of the country which is now carrying credit on a 15.6 and 25 per cent basis and which in the Federal bank will be on a 33⅓ per cent basis.

Senator REED. What do you mean—Federal banks?

Mr. BERRY. These new banks—Federal reserve banks.

Senator REED. Federal reserve banks?

Mr. BERRY. Yes.

Senator SHAFORTH. To be created by this bill.

Senator REED. I understand.

This will result in a loss of loaning power in these banks as follows (reading):

Taken from country banks	$165, 475, 750	
Carrying credit in reserve city banks at 15.6 per cent		$1, 060, 613, 000
Taken from reserve city banks	76, 109, 715	
Carrying credit in central reserve banks at 15.6 per cent		487, 882, 700
Taken from central reserve banks	140, 541, 750	
Carrying credit at 25 per cent		562, 167, 000
Total cash absorbed	382, 127, 215	
Federal bank reserve (33⅓ per cent)	127, 365, 738	
Apparently free for rediscount	254, 751, 477	
Total credit sacrificed		2, 110, 662, 700

Mr. BERRY. This loss of credit, however, is partially compensated by a reduction in the per cent of reserve required in reserve city and central reserve banks from 25 to 20 per cent.

The transfer of 5 per cent of reserves in country banks directly to Federal banks results in a minimum loss of $105,000,000 of usable reserves in reserve city banks. If the country banks still require 6 per cent of money to carry their credits, as I think they will, the loss to reserve city banks will be $139,000,000, and the compensation, 5 per cent, will be $66,000,000, making the loss $73,000,000.

The transfer of 5 per cent of reserve city banks reserve directly to the Federal bank will result in a minimum loss of $74,379,000 of usable reserves in central reserve banks, and the compensation, 5 per

cent, will be $50,000,000, showing the loss of $24,379,000 in these banks.

Seventy-three million dollars plus $24,379,000 equals $97,379,000, which is the total loss that must be immediately made up by rediscount from the $254,000,000 set free in the Federal banks. Now, that money has got to go back at once out of the Federal reserve accumulations for the purpose of sustaining an existing credit.

Senator REED. That is, a country bank is compelled under this law to pay into a regional reserve bank $25,000, and it must immediately borrow it back?

Mr. BERRY. A part of it.

Senator REED. Well——

Mr. BERRY. Not the outside bank, but the reserve city banks. This $25,000 that that outside bank puts into the Federal reserve formerly went into the reserve city bank, and there stood at a basis of credit. Now it comes into the Federal bank, where it is a basis of discount, and, in order that that reserve city bank may keep its present credit, it must instantly get a portion of that money back, in order to put us where we now are, without any provision of after expansion.

Senator REED. And it puts this in in place of it?

Mr. BERRY. Whatever it puts there as security, but the point is to keep track of the money.

This leaves $157,372,477 as the final amount actually released for carrying new credit.

By no possible stretch of imagination can this amount exceed $175,919,227, as shown in our example applied to all banks, and in practice it must fall much below this figure. This is the extreme possibility of the law in these figures; practically it will be less.

But, assuming it to be all available, it will carry, if distributed in proper proportion to all the banks, at 9.6 per cent, $1,830,000,000 of new credit, and together with the annual increment from gold will provide for the normal growth of business for possibly two and one-half years. That is the total limit of the beneficial results which can possibly be predicated on the operation of this law, that it will carry the normal development of credit for two and one-half years.

At the end of this time, unless gold production should greatly increase, it would all be absorbed, and the present condition of stress would again be set up. We would back into the same position we are now. The best that can be hoped for from the new law is that the demand for credit would be met for about two years, after which a new adjustment of reserves involving a further reduction in the per cent required would be necessary, and so on, ad infinitum.

But we have thus far entirely neglected the fact that there are other demands for reserves upon the Federal banks, notably the substitution of Treasury notes for bank notes. There are $730,000,000 of these notes, and their substitution with Treasury notes, as provided in the Glass-Owen bill, will require $243,000,000 of reserves and will leave the Federal banks not only without funds for rediscount purposes, but with a deficit of $68,000,000, which will have to be made up by Government deposits.

Senator REED. Will you not state that over? My mind does not move rapidly enough to grasp that as fast as you state it.

Mr. BERRY. But we have thus far entirely neglected the fact that there are other demands for reserves upon the Federal banks, notably the substitution of Treasury notes for bank notes. There are $730,000,000 of such notes, and their substitution with Treasury notes, as provided in the Glass-Owen bill, will require $243,000,000 of reserves, which will leave the Federal banks not only entirely without funds for rediscount purposes, but with a deficit of $68,000,000 that will have to be made up by Government deposits.

Government deposits will help the situation if there are any legal-tender funds in the general fund of the Treasury that may be deposited. A recent report showed about $40,000,000 of bank notes held in this fund, and these are, of course, useless for reserve purposes, and unless I am greatly deceived, the present emergency will require the deposit of all the legal tender in the Treasury in order to put the present credit fabric on a safe basis, 9.6 per cent, and will leave none for deposit in Federal banks for rediscount purposes.

So far as I am able to judge, the operation of the proposed law will not improve the present situation or furnish any means of meeting the demands for new credit incident to the growth of the country. Nor am I able to see any advantage to the national banks that will compensate them for the investment of a portion of their capital at a maximum dividend rate of 5 per cent.

The net result of the whole transaction will be the retirement of the bank notes and their replacement with Treasury notes, having a 33⅓ per cent reserve against them, and the reduction of the general reserve under bank credit from 12.6 to 9.6 per cent.

To my mind, the basic fact to be considered is that the gold supply—$65,000,000 per year—since only half of it will reach the banks, will furnish a basis, at 9.6 per cent, for only $330,000,000 of additional credit each year, whereas $1,000,000,000 per year is needed. If we fail to provide other new reserve money, we are shut up to one or two alternatives: We must either refuse to allow business to normally expand, or continually reduce the percentage of reserve to be held against bank credit, a thoroughly dangerous proceeding.

The remedy lies in giving to the new Treasury notes the legal-tender powers that will enable them to stand in bank reserves. The gold supply will furnish to the reserve fund $32,500,000 per year, which will carry the notes in sufficient volume to furnish reserves for all the new credit we need. As I see the case, we must do this or restrain credit and business.

If we choose the latter course, the trust problem must grow apace and can not be safely treated. Periodic panics must still be expected and all the evils that flow from them.

In my judgment, it is unwise to reduce the per cent of reserves under our bank credit, and it is entirely unnecessary. The notes to substitute the bank notes can be issued directly by the Government in exchange for the bonds and bank notes, and directly to the banks that need additional reserves, as fast and no faster than the demand for credit calls for them; and the whole problem of the 2 per cent bonds, as well as a safe and adequate supply of credit, is solved at once.

The Government should, and easily can, maintain in a special reserve fund a gold reserve together with the surrendered bonds, or a new issue of bonds at a higher rate of interest, as an asset for redemp-

tion purposes. This is what is contemplated in Senator Owen's supplemental bill.

In order to obtain legal-tender notes, the banks could afford to and would make a sacrifice; but to secure a Treasury note that is no better than a bank note and useless for reserve purposes, they could not and would not sacrifice anything.

The problem before us is to break the so-called credit monopoly, which, like every other monopoly, can only exist when the supply of the article monopolized is limited. To do this the supply of credit must be made to readily increase in response to demand.

The supply of credit can only be increased in one of two ways; and as I have said, in answer to question No. 5, we must either reduce the per cent of legal-tender cash reserve upon which it stands or increase the cash, in order that a larger volume of credit may exist upon the present per cent of reserve.

The Glass-Owen bill is seeking to reduce the per cent of reserve, and proposes to make a present of $175,000,000 flat to the banks by releasing that amount of reserves and make possible $1,800,000,000 of additional credit upon which they may draw interest.

I submit that the banks are reaping a sufficient return from the interest on their loans without giving them money on which to float them. This is especially vicious, in view of the fact that the gift is made at the sacrifice of the margin of safety in reserves. This "margin of safety" is an asset of the borrowers only, for the banks do not need it for their own protection. They are always safe in that they can and do call loans at will; and it is never the assets of the bank, but always the collateral of the borrower, that is forced to sacrificial sale in an emergency.

But, assuming that it is possible to thus expand credit, which I do not concede, the relief will be only temporary. The situation demands an annual contribution of reserve money in excess of the gold supply; and the maximum supply that can be possibly claimed from this reduction of reserve requirements would not last three years. Practically, the time consumed in making the changes would be so considerable that the supply of credit would not equal the demand at any time in the interim, and fail entirely in the end.

The credit monopoly will, therefore, still exist with its high rates and discriminations, and the people at large will not be greatly, if at all, benefited; while the credit fabric which has failed disastrously three times in a generation on a 12.6 per cent reserve will be still less stable on a 9.6 per cent reserve.

I am constrained to register my protest against this dangerous experiment.

By the second method, the present per cent of reserve can be maintained or increased and the credit monopoly broken by supplying the entire demand for credit through the conversion of the bonded indebtedness of the nation into a demand obligation in the form of legal-tender paper competent to stand in bank reserves.

By this process we will make a present of about $135,000,000 per year to the Government—the people instead of the banks—which can be devoted to public works; and the benefits of an equitable interest rate, with nondiscriminative and competitive credit to legitimate borrowers, will be realized.

This is not an experiment in any sense. We now have $350,000,000 of Treasury notes and $600,000,000 of silver serving the purpose of reserve money, no part of which is giving the slightest trouble, and can not do so, unless a heavy export of gold should set in and continue for years, in which case the resale of the retired bonds is the remedy.

The bank note is the sole cause of redemption trouble, and the new Treasury note will be exactly like it unless given power to stand in bank reserves. Since the figures I have given you were prepared the House caucus has amended the Glass bill, still further reducing the percentage of reserves required in all the banks to an average of 9.2 per cent, as against 9.6 per cent as originallycontemplated. This will add $22,300,000 to the $175,900.000 apparently released for rediscount purposes, making $198,200,000.

Carrying this figure through the calculation, we find that the total deficit instead of being $68,000,000 will be about $45,000,000. It is therefore clear that the bill as amended is not essentially better than the original.

I am very much obliged to you, gentlemen, for your attention.

Senator SHAFROTH. We are very much obliged to you; but Senator Reed wants to have a talk with you further.

Senator BRISTOW. I think Senator Reed and Mr. Berry had better take a rest and then come back here at 2 o'clock.

Senator REED. I think so.

The CHAIRMAN. At 2 o'clock there is an executive session in the Senate. I do not suppose it will last very long.

Senator REED. Suppose we meet here, Mr. Chairman, immediately after the executive session.

Senator BRISTOW. Mr. Berry, I am very much interested in your statements. You have given, to my mind, some very ingenious suggestions.

Mr. BERRY. Boiled down to its last terms, there is only one suggestion, and that is to substitute legal-tender notes and make the proposed issue under this bill a legal-tender instead of a nonlegal-tender note, and you will have the solution of the problem.

The CHAIRMAN. I think you are absolutely right about the legal tender.

Senator SHAFROTH. So do I.

Mr. BERRY. At the last analysis that is what it boils down to.

The CHAIRMAN. We will now stand adjourned to meet within 10 or 15 minutes after the Senate rises from executive session this afternoon.

(Thereupon, at 12.45 o'clock p. m., the committee took a recess until this afternoon at the time stated.)

AFTER RECESS.

The CHAIRMAN. I submit, from the report of the Director of the Mint for 1912, dated December 31, a table of the monetary statements and approximate stocks of money, in the aggregate and per capita, in the principal countries of the world, pages 66 and 67, annual report of the Director of the Mint.

Senator REED. What year?

The CHAIRMAN. 1912.

STATEMENT OF WILLIAM H. BERRY—Continued.

Mr. BERRY. I do not know whether it would be worth while, Mr. Chairman, to ascertain. There are no statistics that I have ever been able to find which give definitely the amount of banking credit which is available in these various countries. If there were such statistics available it would be instructive to have them along with it. I do not know where such statistics may be found. I have hunted for such statistics, but I do not know where they may be found.

May I just very briefly introduce another thought here? Of course my argument is based largely on the assumption that the supply of legal-tender money is not adequate, and as an indication of its scarcity I have before me the last report of the Treasury Department showing the condition of the national banks on June 14, 1913, from which I secure the following facts:

Those banks held on that date, collectively, $952,900,000 of legal-tender money. They owed to State banks and trust companies on that date $862,000,000. They owed a billion and 57 millions, altogether, but there was a counter debit of 194 millions, leaving 862 millions as the net obligation of the national banks to the State banks and trust companies.

The CHAIRMAN. I would like also to put in as a part of that paper this statement dated June 30, 1912. It is a very interesting compilation, and will also go to explain Mr. Berry's evidence.

Mr. BERRY. The difference between what these banks hold and what they owe, net, to State banks and trust companies, outside of their depositors, was 90 millions of dollars; 90 millions of dollars as against their total demand obligations, which were 7,599 millions. That is 1.1 per cent. The extent to which the funds of State banks and trust companies are moving over into the custody of the national banks in order that a legal showing of reserves may be made is astonishing.

Senator REED. What do you mean by that?

Mr. BERRY. Just exactly what I have said. The growth of the system of affiliated national banks with trust companies, next door or on the other side of the hall in the same building, in Pennsylvania, is astonishing.

Senator REED. Do I understand you this way: The bank reserve has fallen below the legal requirement, and in order to make their showing of a proper reserve they simply get into a trust company and carry over and put in their vaults temporarily a certain amount of money?

Mr. BERRY. Which appears as due to banks.

Senator REED. And they make their report upon that, and you say that is done extensively?

Mr. BERRY. Yes, sir.

Senator REED. Could you tell us to what extent?

Mr. BERRY. The general extent is indicated by this report, as I have just analyzed it.

Senator REED. That is to say, that they have actually got about one-tenth of what they ought to have?

Mr. BERRY. Yes. That is, they actually own only $1 for every $100 that they had on demand account.

Senator REED. In other words, they shift their reserves from one bank to the other?

Mr. BERRY. Yes.

Senator REED. And a reserve serves twice in that way. I ought to have a reserve of $1,000,000, and I take all that the law permits me to put in another bank, and I put that over in your bank, and thereupon it begins to operate as a reserve? Is not that the way it works out?

Mr. BERRY. Well, as between national banks that works out, but this other is another thing altogether. It is the affiliation of national banks with trust companies across the hall, or next door, under the same control and under the same management. And when the bank examiner is present in the national bank, that bank is full of money, it having crossed the hall in gripsacks a day or two before; and when the State bank examiner is present in the trust company, the reverse movement occurs.

Senator REED. How would that be prevented?

Mr. BERRY. By making money enough for both of them. I think that is the best way.

Senator REED. How can it be prevented, as a matter of examination?

Mr. BERRY. Simultaneous examination will counteract that.

Senator SHAFROTH. In the State of Colorado we have a State law which provides that the report made by the State banks shall be on the same day as the report made by the national banks.

Mr. BERRY. Yes.

Senator SHAFROTH. And it seems to me reporting all at the same time would check that.

Senator REED. If they tried to beat a law, they could easily enough make one report at 9 o'clock in the morning and the other at 5 o'clock in the afternoon.

Senator SHAFROTH. No; I think they call for it at the close of business on a certain day.

Mr. BERRY. It is a very difficult thing to reach by law.

Senator REED. Following out just what we have been talking about, assume that a bank had sufficient deposits so that under the law its reserve would have to be $1,000,000. That bank, if it is an ordinary city bank, can put half of that money in another bank, can it not, and hold half?

Mr. BERRY. Yes.

Senator REED. The bank into which the money has been placed can hold 12½ per cent of it, which would be what?

Mr. BERRY. $125,000.

Senator REED. Twelve and a half per cent?

Mr. BERRY. $125,000, would it not?

Senator REED. No. Half a million—there is a half million held by the first bank as its 12½ per cent. It is 12½ per cent that it can put into another bank.

Mr. BERRY. Oh, yes.

Senator REED. So that it puts $500,000 over in the next bank, and that bank can hold 12½ per cent of that $500,000, which would be $62,500, would it not?

Mr. BERRY. Yes.

Senator REED. And it can then take—well, I will have to figure that.

Mr. BERRY. That problem is fully figured out in this last paper that I read from.

Senator REED. It could then have the balance of the $500,000 put into still another bank, and it can take 12½ per cent and keep on shifting that money around and can bring part of it right back into the original bank if it wants to, can it not?

Mr. BERRY. No; I do not think so. It could not do that legally. The law contemplates that a bank can only use a central reserve bank as a depositary for its reserve.

Senator REED. That is where it is broken. But, outside of the central reserve bank, is there anything to prevent the country bank from doing so?

Mr. BERRY. The method is to deposit a portion of its reserve in the reserve city bank, and the reserve city bank deposits a portion of its reserve in the central reserve bank.

Senator REED. Can it deposit a part of its reserve in any other bank?

Mr. BERRY. Oh, yes; it is not compelled to deposit any part of it anywhere. As a matter of fact, they do. They deposit a portion of that in the reserve banks and a portion of it in the outlying banks. Funds are put in the central reserve cities directly.

Senator REED. Mr. Berry, taking the system which we now have in this Government, do you regard our system as some people seem to have regarded it—that it is the poorest banking system in the world?

Mr. BERRY. No, sir; I do not.

Senator REED. Do you think it is a good banking system, taken as a whole?

Mr. BERRY. As I have said already in my paper, I believe it is the best banking system in the world.

Senator REED. Now?

Mr. BERRY. Now; yes, sir.

Senator REED. Then somebody, if you are correct, has been grossly exaggerating the evils of this present system; that is, those who have said it is the poorest banking system in the world. They have been grossly exaggerating the defects of the system?

Mr. BERRY. They have been charging the defects to the banking end of it, whereas the defect is solely resident in the currency end of it.

Senator REED. Do you regard our currency system as an exceedingly poor system, or only a system that has some defects in it?

Mr. BERRY. It is a system that has one basic defect in it. It is not capable of expansion with sufficient rapidity.

Senator REED. Taking this banking and currency system as it is now, can you not, in a few words, point out the defects in the currency system? I mean, not in the way of argument, but in a statement of the fact, just in a few words?

Mr. BERRY. Well, the basic defect is in the inability of the banks to secure sufficient reserve money to meet the demand for credit.

Senator SHAFROTH. It is due to the fact that there is insufficient legal-tender money.

Senator REED. Do you agree with Senator Shafroth that it is due to the fact that it has not sufficient legal-tender money?

Mr. BERRY. Yes, sir. In my judgment that is the one real crucial difficulty in the whole situation; and if corrected, the banking system will respond, in my judgment, almost immediately to the demands for credit.

Senator REED. Your method of furnishing the banks with sufficient reserve money, broadly stated, is to make more money?

Mr. BERRY. Yes, sir.

Senator REED. The method that you have in mind for making more money, worked out, would be what? How would you go at it?

Mr. BERRY. To allow any bank that has a Government bond in its assets to present that bond and receive the market price for it in new legal-tender money.

Senator REED. Regardless of what that market price was?

Mr. BERRY. Yes, sir.

Senator REED. Do you think that would prevent panics?

Mr. BERRY. Yes, sir; a panic would be impossible if that law were established.

Senator REED. How many bonds has the United States Government out now that would be available?

Mr. BERRY. A billion, about.

Senator REED. For that purpose?

Mr. BERRY. Yes.

Senator REED. At the present time, in the matter of emergency currency, what does that have to be issued on? What class of bonds?

Mr. BERRY. At the present time?

Senator REED. Yes; under the Aldrich-Vreeland Act.

Mr. BERRY. Why—do you mean the asset currency plan?

Senator REED. The Aldrich-Vreeland Act. If a bank wants money under the Aldrich-Vreeland Act and wants the coin, the Government can coin or print $500,000,000 worth. With what kind of security is that money obtained?

Mr. BERRY. Why, as I understand, on various securities, to be determined by the judgment of the Treasurer.

Senator REED. It has never in fact been used, has it?

Mr. BERRY. No, sir; nor will it ever be used.

Senator REED. Why?

Mr. BERRY. Because the money is not a legal tender when they get it, and it is of no use to them.

Senator REED. You say it is not a legal tender. It would pay their ordinary customers, would it not?

Mr. BERRY. Yes; but that is not what they want. They have not any trouble in paying their ordinary customers. Their trouble is that their reserves are down, and they can not get money to replenish them from anywhere. That is the trouble.

Senator REED. You make the point, then, as to this money which they could obtain under the Aldrich-Vreeland Act, that when they did obtain it it would not do them any good, because they could not build up their reserves?

Mr. BERRY. That is right.

Senator REED. Let us see if that is literally the case. If you have a bank, and your reserves have got down too low, and you need $1,000,000 to replenish them—at the same time you do not want to

deny customers the ordinary credits that you have been extending to them—you go over to the Treasurer with such securities as can be accepted under the Aldrich-Vreeland Act, and you get $1,000,000, and take it down and put it in your vaults. Every man who is doing business with you continues to pay in money to you every day, and the money that you pay out is this $1,000,000 that you got from the Government. The money that comes in is the ordinary money of the country, the great mass of which is legal-tender money, and can be put in your reserves. Why can you not build up your reserves by that process?

Mr. BERRY. It would not be more than three days after you got that million dollars until that million dollars would appear in your bank or somebody's bank as a deposit.

Senator REED. Part of it.

Mr. BERRY. And the instant it appeared as a deposit you would have to rush somewhere to get legal-tender money to hold against it, and you could not get it.

Senator REED. No; the instant it appeared as a deposit you could turn around and loan it out and pay it out, but continue to conserve and hoard in your vaults the other money that comes in. I can not see why.

Mr. BERRY. Well, if you could persuade the people who make deposits with you to hold always their bank notes and deposit always their legal tender perhaps you would reap a benefit. You doubtless would; but the difficulty is that you and I, when we go to the bank, do not pay any attention to that. We deposit what we have.

Senator REED. Certainly.

Mr. BERRY. And the more bank notes there are in circulation in our town the more there are deposited, and it gets worse and worse every time you put a new one out.

Senator REED. Do you know about what the total money in circulation in this country is, in round numbers?

Mr. BERRY. In circulation? Why, about 2 billion 500 million, in round figures.

Senator SHAFROTH. Two billion six hundred million.

Senator REED. Let us say that the whole $500,000,000 is issued under the Aldrich-Vreeland Act, that you have 3 billion 100 million. But there is $5, in round numbers, of money out for $1 of the emergency money. So that you would take over your counter in the ordinary course of business $5 of ordinary money where you would take over $1 of this emergency currency; and most of the money that you take over your counter, other than the emergency money, could be utilized for reserve money, could it not?

Mr. BERRY. Yes.

Senator REED. With that sort of condition, it does seem to me a man could speedily build up his reserve and build it up by legal-tender money. Is not the trouble with the Aldrich-Vreeland Act something else than what you have indicated? It has never been used. Does it not lie in the interest charge, or does it not lie in the fact that the machinery is not adequate for getting it out, or does it not lie in the further fact that a bank does not want to go down there and appear to be in such stress that it needs money?

Mr. BERRY. I think not, and I base my opinion upon the experience that the banks now have with the 730 millions of bank notes. There

is scarcely a bank in the country that does not. You go in some time and pay in a bunch of money and you see the receiving teller shift it, and he will take out every bank note there is in it and put them into one drawer, the near drawer, so that the next fellow that comes in will get that, and it will go out. They do now with that money just exactly what you refer to, to the largest extent possible, and yet 700 millions of it go back for redemption every year.

Senator REED. But it goes right out again, does it not?

Mr. BERRY. I know it does, but it absorbs 60 millions of money to do it.

Senator SHAFROTH. The main defect in the Aldrich-Vreeland bill, as I understand it, is that the bankers' associations, which are required to be formed in the community that wants any money under the Vreeland Act, are not willing to be responsible for each other, and that act requires that there should be a joint obligation of the association; and that has been the reason, as I understand it, that they have not made any demands on the Treasury under the Vreeland Act.

Senator REED. I am satisfied that there must be some reason of that kind, or else there has been no great necessity for money.

The CHAIRMAN. There is another reason, Senator, that has not been commented on, and that is this: Whenever a bank applies under the Vreeland-Aldrich bill to its associates in that association, the condition of that bank is known to the other members of the association—that it is in stringent need—and they do not like to make that confession, because it frightens their depositors.

Senator REED. That is one of the things that I really suggested in that question—that they did not like to apply for it because it was in the nature of emergency money.

Mr. BERRY. That may be a factor. I doubt not that it is, but I base my view upon the experience that we have with the bank notes. A bank note requires an 5% per cent reserve of legal tender behind it to keep it in circulation, and the Aldrich-Vreeland bill will require the same thing. There is the trouble, and the whole trouble. You have absorbed 75 millions of dollars of legal-tender money whose sole occupation is the maintenance of that 730 millions of bank paper in circulation.

Senator REED. Well, it seems to me you could well afford to absorb that much money if you got that much more for it. You are still multiplying your money very rapidly. But what I am trying to get at is the reason that the Aldrich-Vreeland Act has never been used. Of course, one reason is that we have never had a real panic since we had it. If we had had a real panic, the probabilities are that money would have gone out, would it not?

Mr. BERRY. I do not think so.

Senator REED. You do not think the banks would have used it even in case of a panic?

Mr. BERRY. No; I do not.

Senator REED. Suppose that the Aldrich-Vreeland Act was amended so that any bank, on its own motion, without going to any other bank for indorsement, could take its assets, whatever they were, to the Treasury and get their money issues at a low rate of interest. Would the money flow out then?

Mr. BERRY. Well, it might if the interest rate was low enough and the terms sufficiently attractive; but I do not see how the situation

would be in any degree relieved. My impression is that the more of that money that you have in circulation the more trouble you would have in regard to its redemption. The larger percentage of it that there is in circulation the larger percentage would be deposited. Therefore more reserve should be required behind that money than would be required behind a book credit of the same volume, and you are in no better position. It does not relieve your situation at all.

Senator REED. Just because it can not be used as reserve money?

Mr. BERRY. Surely.

Senator REED. Suppose it could be used as reserve money?

Mr. BERRY. Then you have the problem solved.

Senator REED. That is all that is necessary?

Mr. BERRY. Yes, sir; that is all.

Senator REED. Would there be anything, in your judgment, unsafe in the Government of the United States issuing money in any amount, within the bounds of reason, upon Government bonds?

Mr. BERRY. No.

Senator REED. And if the Government got their securities and piled them up in its vaults, the securities of the citizen and of the banks and of the big corporations of the country, and piled them up in its vaults and also put the faith and credit of the United States back of the money that it emitted, do you think that would impair or jeopardize the credit of the country?

Mr. BERRY. No; I do not.

Senator REED. Then, if I get you right, all that we have to do is to provide that the Treasurer of the United States shall print money, and that whenever any banker comes to the Treasurer with Government bonds or with such other security as may be safe security to issue that money upon it, making that money full legal tender for all debts, public and private? You think that would not impair the credit of the country, and you think that would give us the money to handle the business of the country?

Mr. BERRY. Yes; I think so; but still I would object to the method. That will do the right thing in what I think is, partially at least, the wrong way. I do not think that the assets of an individual—that is, the obligations of an individual—ought to be used for that purpose. I think nothing but the public credit should have that privilege.

Senator REED. That is just exactly what is being done under this present bill, is it not?

Mr. BERRY. Yes.

Senator REED. The assets of an individual are being used, as I understand it. Let us follow that.

Mr. BERRY. Not exactly; I do not mean the assets of an individual, but the obligations of an individual.

Senator REED. Yes; that is what I should have said. A bank is opened for business, we will say, and it loans a million dollars of money and takes the notes of the merchant, the farmer, and everybody else—good safe paper—let us say. It wants to get money from a regional bank. It goes to the regional bank, deposits these securities, and borrows the million dollars. That is the first step, is it not?

Mr. BERRY. Yes.

Senator REED. And the million dollars that is given to it is got out of the vaults of the regional bank. The regional bank then takes

that million dollars of paper, indorses it, which of course makes it that much better, and carries it down to the Federal Treasury, or rather carries it over and it is locked up in a special place with the representative of the Federal Government, who is there in the bank, and thereupon there is delivered, based upon that security, $1,000,000 of these notes. That is the same proposition that we were first talking about, exactly, except that in this instance you have the indorsement of two banks upon the paper, but nevertheless it is money issued upon the debts of individuals?

Mr. BERRY. Yes.

Senator REED. And if it is proper in that instance it would be proper in the first instance named, provided there is not something defective in the manner of working it out. But the same thing is fundamentally there, the same idea, is it not? Do you assent to that?

Mr. BERRY. Yes, except this, that you have the difference there between the paper which is indorsed by a bank—you included that in your proposition, did you not?

Senator REED. I was first just simply trying to find out whether the money that is issued by the Government in both instances was not issued upon debts of private individuals, including as individuals any corporation, banking corporation, or any other corporation; it is nevertheless money issued upon that kind of assets?

Do you not think that we could let our present banking system stand just as it is and provide this currency by doing two things: First, provide that currency could be issued upon all Government bonds that were brought there with the request that money should be issued upon them; and, second, that there should be vested in the Secretary of the Treasury or comptroller or some other Federal authority the right to issue additional money upon notes of individuals, State bonds, or other banking assets under such rules and requirements as might be provided by these Federal authorities touching the matter of safety, the amount of the issue, etc.?

Mr. BERRY. I think so. I see no reason why you could not do it now just as well as you could under new arrangements. But my fundamental objection to it still inheres. I would not wish to commit myself to a proposition that would allow anything but a public obligation. The absorption of a public obligation into the Treasury in lieu of notes issued ends the transaction. There is no bookkeeping or any horde of clerks necessary to be employed to take care of the proposition. It is a finished transaction. On the contrary, if they have these notes of individuals to handle there is endless detail. This objection is only to commercial paper. Of course, as to a State bond or any other bond having the taxing power behind it, in any considerable area or territory, I would be willing to give that same privilege, but my thought is that the development of this Nation will require the expenditure and ought to have the expenditure of enormous sums of money in the immediate future; and therefore the obligations of the Government issued for the purpose of these public improvements would be a sufficient reservoir, a sufficient source for supplying all of the legal-tender money that the country needs. It would only amount to 135 millions a year. It probably would be more as we grow, but at this moment it stands on the basis of the last 10 years at 135 millions a year.

Senator REED. I think Mr. Berry, I understand that, and I do not want to shut you off from any answer, because you are entitled to have your views plainly set forth. But I think we understand that, and if I may stick to the line of questions I started with I will ask you this: Your idea is that one reason the Government bond is better as the basis for this money than the short-time commercial paper is that when the money is issued upon the Government bond it goes out and stays out and becomes a part of the permanent circulation of the country, unless money becomes so plentiful that interest rates drop to a point where the holder of the money might want to go and take up his bond. That is the reason, is it not?

Mr. BERRY. Yes, sir.

Senator REED. Therefore, what you desire in your plan is not a money that is created only for a few days' time and which must be at the end of that short period absorbed back into the Treasury and distributed, but it is a permanent money. Is that right?

Mr. BERRY. Yes, sir.

Senator REED. If what you desire is a permanent money, a permanent security is the thing to put up upon which to have it issued, is it not?

Mr. BERRY. Yes, sir.

Senator REED. You prefer the Government bond. Now, why not the bond of a State, the unchallenged and undoubted bond of a State?

Mr. BERRY. There is no reason why not.

Senator REED. Why not the bonds of cities and counties, when they have been classified, and it has been ascertained that they are undoubtedly good?

Mr. BERRY. Well, you are approaching the danger line. I think you are getting too near the individual in that, but the principal thing——

Senator REED. I am not approaching it in the matter of the security being good.

Mr. BERRY. No; not at all.

Senator REED. Because I have put into my question the statement that it must have been ascertained to be good I do not mean that every city bond is to be accepted because a city issues it, but I mean when bonds have been issued and when an examination has shown that they have been legally issued—and I will add to that, even bonds that have been issued with the interest regularly paid up for a given period of time, something similar to a requirement, I believe, in the New York statute with reference to certain securities—that would be pretty good security, would it not?

Mr. BERRY. Oh, yes.

Senator REED. You would have a money that was backed by the faith of the United States, would you not?

Mr. BERRY. Yes.

Senator REED. But you would have in the hands of the United States the obligation of either a city or a county or a State.

Mr. BERRY. Or the Nation itself.

Senator REED. But we have also got the Nation itself in the Nation's guaranty. Why does not that furnish a much higher and better class of security than the paper of A B indorsed by the bank B C and reindorsed by the bank C D?

Mr. BERRY. It does.

Senator REED. If what I have suggested by my questions is adopted as a currency measure, then there would be no necessity, in your opinion, for the creation of these reserve banks or any other machinery. The banks would simply go on in their own way and get whatever money they needed as individual banks?

Mr. BERRY. That is the way I should look at it.

Senator REED. I want to get you to help me in finding what is the final result of the organization of all these regional reserve banks. Have you the table before you showing the capital that would go into these banks?

Mr. BERRY. No; they took my manuscript. I had it here, but they have taken it away. But I can recall it very closely.

Senator REED. I am going to insist that I be given the right to carry a gun, for every investigation I have been on just the moment I wanted anything I found the reporters had carried it off.

The CHAIRMAN. I gave instructions to have the manuscript returned to-morrow morning.

Senator REED. But I wanted, if I could, to get this in in accurate figures, for a reason. Of course you could not, out of your mind, recall those figures with absolute accuracy. Have you the total capital, Senator Owen? You have nearly everything of all the national banks.

The CHAIRMAN. Yes; certainly.

Mr. BERRY. I have that right here.

Total capital stock paid in, $1,056,000,000. Seven hundred and twenty millions of surplus.

Senator REED. If all the national banks came in and paid into the regional reserve banks the 10 per cent required, there would actually be a capital for the regional reserve banks of what?

Mr. BERRY. $100,000,000.

Senator REED. $100,000,000 in round numbers?

Mr. BERRY. Yes.

Senator REED. But there would not be any increase of banking capital in the Nation. They would simply take this 10 per cent of their present capital, which they own locally, to reduce their capital that much and transfer it over into the Federal reserve banks?

Mr. BERRY. Yes, sir.

Senator REED. So we have not created a new dollar of money by that process, have we?

Mr. BERRY. No.

Senator REED. If there is $100,000,000 of capital stock for all of these regional reserve banks, and we had 12 of them, there would be approximately $8,000,000 for each bank?

Mr. BERRY. For each one, yes.

Senator REED. Yes; $8,000,000 for each one of these reserve banks. There would be deposited in these reserve banks 5 per cent, an amount equal to 5 per cent of the total deposits of the country, which would be what? I mean, total deposits not of the country but of the national banks of the country.

Mr. BERRY. There is about 6 billions of those deposits. That would be about 300 millions.

Senator REED. Three hundred millions of deposits?

Mr. BERRY. Yes.

Senator REED. But all you have done is to shift it from many banks into one common bank. You have now got a total of $400,000,000 in assets in these banks, $100,000,000 of which they own?

Mr. BERRY. Yes.

Senator REED. And you have not added a dollar to the money of the country yet, have you?

Mr. BERRY. No, sir.

Senator REED. What did you say the total deposits of the country were?

Mr. BERRY. The total deposits of the country?

Senator REED. Yes.

Senator SHAFROTH. About 19 billion.

Mr. BERRY. Yes.

Senator REED. Is that for the country, or for the national banks?

Mr. BERRY. That is all together.

Senator REED. What is the total deposits of the national banks?

Mr. BERRY. About six billions.

Senator REED. For the national banks as a whole; the 19 billions includes all State banks and trust companies?

Mr. BERRY. Yes, sir.

Senator REED. You will have, then, in these banks 400 millions of dollars as against 19 billions of deposits. It would constitute a reserve. Can you tell me, in your head, rapidly, about what percentage?

Mr. BERRY. I can not tell you in my head, but I can do it with a pencil in a jiffy. [After calculation:] It is about 5 per cent.

Senator REED. It can not be 5 per cent.

Mr. BERRY. Oh, no. What did you say? What is the total of your cash?

Senator SHAFROTH. Four hundred millions. It would be absolutely just 2 per cent if it was 20 millions.

Mr. BERRY (after calculation). A little over 2 per cent.

Senator REED. And it is 6 per cent, speaking in round numbers. The total assets of the regional reserve banks would be 6 per cent of the deposits of the national banks and about 2 per cent of the deposits of all the banks of the country; and still we have not a single dollar of new money.

Mr. BERRY. No.

Senator REED. When the banks put this reserve of 5 per cent which they now have into the regional banks, it will take $300,000,000 out of the national banks' vaults at once, will it not?

Mr. BERRY. Yes.

Senator REED. And the $100,000,000 which they have put in there as capital will also come out of the assets of the banks, will it not?

Mr. BERRY. Just there, Senator, I wish to inquire of Mr. Owen my figures. If you are going to demand that these banks furnish that capital in cash, my figures are not near bad enough. But I have assumed that the capital contributed by these outlying banks would be contributed in the form of securities rather than in the form of cash. If they are going to demand cash, why that is further up in the air than I showed it to you.

Senator REED. But sticking to this one thing, for I am trying to get to a certain conclusion——

Mr. BERRY. You are assuming, now, that it is cash?

Senator REED. Assuming that it is cash we have to put in; but a hundred million dollars of cash out of their vaults as and for capital, $300,000,000 of cash as and for the reserve of 5 per cent?

Mr. BERRY. Yes.

Senator REED. Necessarily the banks must utilize that $400,000,000 in some way pretty speedily or else it is going to make a shortage of money in the banks of the country, is it not?

Mr. BERRY. Certainly.

Senator REED. Therefore, is it not true that the result would be that they would borrow from the regional banks back an amount of money substantially equal to the amount they put in?

Mr. BERRY. With the exception of 175 millions. They would have to have it all back instantly excepting 175 millions.

Senator REED. That is 33 per cent?

Mr. BERRY. No; that is the saving that they realize by reducing their reserve requirements from 25 to 20 per cent and from 15 to 12 per cent in the banks.

Senator REED. Yes. That is because the general reserve of the country has been reduced?

Mr. BERRY. That is it. It would all have to go back instantly except 175 millions.

Senator REED. But with an actual shortage of ready money, is it not likely that these banks would borrow back almost immediately the $400,000,000 they had put it, or substantially all of it?

Mr. BERRY. They could not get all of it. They would not have to have all of it. (After calculation.) They would have to have immediately back 225 millions of it.

Senator REED. Two hundred and twenty-five millions of it that they would have to get back immediately?

Mr. BERRY. Yes, sir.

Senator REED. That leaves you 175 millions, just your figures of a moment ago. Is not the regional reserve bank required to keep a reserve?

Mr. BERRY. Yes, sir.

Senator REED. Of how much?

Mr. BERRY. 33⅓ per cent.

Senator REED. This 175 millions would barely cover their reserve, would it?

Mr. BERRY. If you consider all of the reserve they have to carry, it will not cover it by 50 millions.

Senator REED. Very well. The first thing that happens in this process is that the banks carry over $400,000,000 and borrow back every dollar of it except what the regional bank has held by way of reserve, speaking broadly, now. I am not trying to speak with absolute mathematical accuracy. That is right, is it not?

Mr. BERRY. Yes, sir.

Senator REED. And we have left now in the banks $175,000,000, substantially all of which has to be held as a reserve, and we have not added a dollar of new money or new wealth of any kind, have we, up to this point? I mean we have not added anything to the aggregate bank capital of the country?

Mr. BERRY. You have not added a new dollar, no, sir; but you have let loose from the reserves of the country——

Senator REED. That comes under another phase of this bill which reduces the reserves. Mr. Berry, let us say that you have a bank that has in its vaults $225,000,000 of bank paper and has $175,000,000 of reserve. There are 12 of these banks, and if they run on the average and they have $1,750,000 in their reserves which they can not touch, the reserve of each of them would be a little over $145,000 in its vault, of cash, and that would be held as a reserve. Is that right?

Mr. BERRY. I am not able to follow your figures.

Senator REED. Divide the $1,755,000, which you say would be left in these banks, by 12, will you, please?

Mr. BERRY (after calculation). I would call it 15 millions, Senator?

Senator REED. You have only got in the banks 400 millions.

Mr. BERRY. Yes; you sent back 225 millions.

Senator REED. You have $1,750,000 left——

Mr. BERRY. You have $175,000,000 left.

Senator REED. Oh, yes; then you have how much?

Mr. BERRY. Fifteen millions of money.

Senator REED. Every dollar of which is tied up.

Mr. BERRY. That is not the way my figures resulted. I find that that was outside of the requirements for securing the national-bank notes—that is, the requirements of reserve against the national-bank notes and available balance of about 150 millions in the whole situation, in my figures; but that was before you had included this 100 millions. That makes a vast difference. If you are going to make those people furnish their capital subscription in cash, you would not have a cent, not a nickel.

Senator REED. I want to know how much of a real help that sort of massing of money is when you have massed it in that way and borrowed it back. Where is your reservoir to drink from when the drought comes?

Mr. BERRY. There is none.

Senator REED. That is just the way it has been striking me. It is true that the bank can take these bank securities now, these notes that the banks have put in there for their $225,000,000, and they can go down to the Federal Government and they can get currency issued.

Mr. BERRY. Yes.

Senator REED. But the solitary atom of original strength now that we have added to this system, the first massing of any of this credit, the first drop of water that has gone into the reservoir from which we are all going to drink in the hour when we are thirsty, came out of Uncle Sam's reservoir, did it not?

Mr. BERRY. New money.

Senator REED. New money that he made. But the banks had not added a penny?

Mr. BERRY. Not a thing.

Senator REED. Then, if Uncle Sam takes his money and deposits it in these banks, of course that is that much more money that they can use; but that money that Uncle Sam issued came out of the Treasury, did it not?

Mr. BERRY. Yes.

Senator REED. So that the only element of strength and the only way these regional banks can do anything is with what they get from the Federal Government; and this talk that we have had here,

that you are going to mass the resources of the country, the reserves of the banks in one common reservoir from which all can draw and which will enable the money to flow from one part of the country to another part of the country, appears to end in an idle dream; that is your view of it, anyway?

Mr. BERRY. Yes, sir. The only thing that promises a possible help in the situation is the reduction of the percentage of reserve required from 25 to 20 per cent and from 15 to 12 per cent. That is the only thing.

Senator REED. We have not added a new element of strength to this by the banking system?

Mr. BERRY. You have added an element of weakness by undermining the credit.

Senator REED. If you want to release 25 per cent of the reserves that we now require the banks to hold, we could do that by enacting the statute changing the requirements of the present law?

Mr. BERRY. Yes.

Senator REED. And then we would have accomplished by that direct method the only good which you see would be accomplished by this indirection?

Mr. BERRY. Absolutely.

Senator REED. Indeed, that provision of this bill which relates to the amount of reserves is a thing that is independent from the scheme itself. It simply is a provision in this bill that the amount of bank reserves may be reduced and they may be distributed differently from what they are at the present time. That is where we come out, is it not?

Mr. BERRY. Yes, sir.

Senator REED. If there is any excuse, then, for this system, it must be found in the fact that it is a device or plan by which before the Federal Government issues this new money it may have the indorsement of this regional reserve bank upon the back of all the individual paper the regional reserve bank has, and which it desires to borrow money from the Government upon. That is about all there is in the whole scheme, is it not?

Mr. BERRY. Yes.

Senator REED. I confess if that is all there is in it I do not see much use in it.

Mr. BERRY. That is all that I have been able to see in it. I do not know whether there is anything that I have not observed or not.

Senator REED. You and I may both be mistaken, and I know that I am very likely to be; but I think with your experience you ought to be pretty sound.

Now, I want to come to another question. I take it that you rather lean to the opinion that one of the weaknesses of our banking system is in requiring banks to maintain as large a reserve as they are now required to maintain. Am I correct in that?

Mr. BERRY. No. My thought would be that they ought to be still required to maintain as large a reserve as they now have, but that it should be more distributed to the outlying banks rather than concentrated in the central reserve city banks.

Senator REED. I was in error. You would require the banks, treating them as a whole, still to keep as large a reserve as they now are required to maintain?

Mr. BERRY. I do not know that I would insist upon that in the central reserve cities. I think the reserve required in the central reserve cities is more than is really necessary.

Senator REED. You misapprehend my question. I say that, treating the banking system as a whole, you do not want to see the local reserves go down?

Mr. BERRY. No, sir; I would not.

Senator REED. That is, if the required reserve figured up to be at 500 millions of dollars, the country bank putting in a certain per cent and the ordinary reserve bank a certain per cent and the central reserve banks a certain per cent, and they aggregated 500 millions of dollars, you might want to distribute the reserves or change the requirements as to what certain classes of banks would hold, but you would still want in the aggregate $500,000,000?

Mr. BERRY. That is my thought.

Senator REED. The first thing this bill does is to reduce that aggregate, is it not?

Mr. BERRY. Yes.

Senator REED. By how much?

Mr. BERRY. By 25 per cent.

Senator REED. It would be, in round numbers, based upon our present moneys——

Mr. BERRY. About 175 millions is what it figures out for the national banks.

Senator REED. In round numbers?

Mr. BERRY. Yes, sir.

Senator REED. So that the first thing we do by this bill is to take out of the present system 25 per cent of that element of safety which has heretofore consisted in the reserve. Have we anywhere strengthened the system by this process?

Mr. BERRY. Not that I can see.

Senator REED. As a matter of fact, when there is a financial shiver goes over the Nation the danger to the banking system lies in the rush of the people to demand cash and the inability of the banks to supply that cash. If the people never lost confidence we might have hard times, but we never would have a panic, would we?

Mr. BERRY. No, sir.

Senator REED. Because a panic means lack of confidence. If it was known that all of the banks of the country had 100 cents on the dollar in their vaults and had all the deposits there that the depositors had placed there, there never would be any trouble whatever. Of course there would not be any banking business done, but there never would be a lack of confidence?

Mr. BERRY. No, sir.

Senator REED. Then, as you reduce the amount of money held in the vaults of the bank you reduce public confidence in the hour of trouble, do you not?

Mr. BERRY. Undoubtedly.

Senator REED. Then, is not the inevitable effect of this bill such that the people of the country are more likely to raid the banks because the reserve has been cut down 25 per cent?

Mr. BERRY. I can not view it any other way, Senator.

Senator REED. Can you discover in the bill anywhere a provision which offers to the customer of the bank—the depositor of the bank—

anything to compensate him for the additional risk incident to a reduction of the reserve?

Mr. BERRY. Nothing whatever, unless, Senator, a provision is made to have this currency given the legal-tender function competent to stand in bank reserves. If it has, then the credit situation will be instantly relieved.

Senator REED. Coming to that, it of course brings us to quite a different proposition from what we have been talking about. Would you make all the money that is issued by the Government full legal tender?

Mr. BERRY. Yes, sir.

Senator REED. Would you retire the bank notes that are now out?

Mr. BERRY. Yes, sir.

Senator REED. But issue in lieu of them full legal-tender money of the United States?

Mr. BERRY. Yes, sir.

Senator REED. What would you do with the silver certificates?

Mr. BERRY. I would substitute for them United States notes, if anybody wanted them substituted. Otherwise let them stay until by natural process they eliminate themselves, and substitute whatever form of currency is the most desirable or convenient in the estimation of the people that use it.

Senator REED. What would you do with the gold certificates?

Mr. BERRY. The same thing.

Senator REED. How much gold reserve would you hold in the Treasury of the United States back of money issued by the United States?

Mr. BERRY. In my paper I have stated that a 20 per cent minimum would be sufficient. I apprehend that under the present circumstances we would tend toward a 33⅓ per cent reserve and would never fall below it. We might reach it. It would take a number of years to do it, because we would start with about 85 per cent reserve, and it would take a long time to get down to that. It would never go below that, because the current production of gold would furnish that reserve against the needed legal tender.

Senator REED. What danger is there, in your opinion, with a 33⅓ per cent gold reserve and with a currency out backed by the faith of the Government, of the gold reserve being depleted by so much of this money being brought to the Treasury and gold demanded; that the paper money would drive the gold out—exhaust our gold reserve?

Mr. BERRY. Issued as I have indicated, with the necessary restraint imposed by the sacrifice involved in its issue, it would never be issued beyond the demands of business, in which case it would not act to drive the gold out.

Senator REED. I wish you would tell me why it would not.

Mr. BERRY. For the simple reason that it is not issued in excess of the demand, not issued with sufficient rapidity to appreciate the prices seriously. If it were issued with sufficient rapidity to appreciate prices, in other words depreciate our money, gold would immediately leave the country for the purpose of improving the condition of the money here. It is only in such cases as that that the Gresham law would be applied.

Senator REED. I understand, of course, that when you come to originally issuing this money upon that plan, it is that it shall be

issued upon a Government bond, the bond being surrendered and the holder losing the interest upon that bond. He will not do that unless there is some demand for the money, some use to put it to. But suppose that half a billion dollars of gold is in the Treasury, and suppose we have issued three billions of dollars of money. What is to hinder the banks of the country, if they saw fit so to do, gathering up money and going down and demanding gold until they would deplete that gold reserve?

Mr. BERRY. Nothing that I can see, except the inconvenience of handling the gold. It is a pretty expensive proposition for a man to handle gold. I am told that it would cost the United States Government hundreds of thousands of dollars even to count the gold which is here, in the loss incident to one handling.

Senator REED. What would there be to hinder the foreign bankers who wanted to transport our gold over there?

Senator REED. What is there to hinder foreign bankers who wanted to transfer the gold over there?

Mr. BERRY. That, I think, is what will transpire, in the event of an emergency, though I am persuaded that the United States is soon to be called upon to finance the world, and I hope we will be able to make provision for the United States Government to send at least $1,000,000 of gold into the foreign trade in the course of a period of years.

I am satisfied that would take care of the gold, for 90 per cent of the natural flow of business has a tendency to gather gold in the United States, and it would only be in exchange for foreign securities that our gold would go. It would become immediately a foreign asset to the extent of the movement of gold away from the country, but of course that sets up immediately a constant for our increment of interest payments which would further work to our advantage. Of course that is not immediately in prospect; oh, I do not know but what it is immediately in prospect. It is not an uncommon thing for foreign countries to now come to this country to sell their bonds and, in my judgment, that will be increasingly so in the future. We have the largest amount of gold ever assembled in the history of any nation; we have the largest market for the securities of the world, and we must prepare, in my judgment, to assume that burden.

I view with satisfaction a situation in which we would begin to send our money abroad just as for many generations past we have been the recipient of foreign money into this country; but to-day we are at the head of the procession. We are the largest commercial factor on earth; not only the largest but we come pretty nearly being one-half of the whole show right here. Three-sevenths of the entire banking power of the known world is in the United States to-day.

Senator REED. Have you ever given any special study to the Bank of England and its methods of preserving a parity of paper?

Mr. BERRY. Yes, sir; one has to give attention to that, and of course it is very frequently injected into the argument as something to copy.

My own judgment about it is that it is something to avoid. The method of the Bank of England is to conserve its reserve by raising the discount rate. By raising the discount rate it practically puts the brakes on business and stops the expansion of business whenever it is necessary to preserve their gold situation.

Senator REED. Do you not think that there are periods of industrial excitement and development when it is a good thing to put a check on business?

Mr. BERRY. No, sir; I do not. As I told you when I started, I am of the number of men who do not believe it wise to say to any man, "Stop working."

Senator REED. Suppose you said to him, "Stop speculating"?

Mr. BERRY. Well, I would be sorry to see the situation of speculation disturbed. I am satisfied that the whole progress of civilization is the outcome of speculation. Speculation is a factor in almost every exchange. I sell you a horse for $150. I take that $150 because that I think the $150 is worth more than the horse. You take the horse and give me the $150 because you think that the horse is worth more than $150.

Senator REED. Well, that does not necessarily follow, and I do not think your illustration throws any light upon the subject in the connection with which you use it. You have two horses and you have use for but one; I have no horse and must have one because I can utilize him. You sell the horse because he is not of use to you and therefore you can afford to sell him for what he is worth, and I buy him because he is of use to me.

Mr. BERRY. That is exactly what I said, stated in another way.

Senator REED. That does not necessarily mean speculation at all. A man who buys that horse does not buy him to speculate on; he gets that horse because he needs him. Take the merchant who has his goods upon a shelf in a store. They are not there for speculative purposes. They are there for sale. I do not think that speculation enters into but a very small per cent of our transactions taken in the aggregate.

Mr. BERRY. Now, it may be in the horse deal that both of us are mistaken. You may discover that the horse was no good to you, and I may discover that the money was no good to me. But nine times out of ten we will discover that we were both right. The speculative idea enters because of the element involved in such a deal.

Senator REED. That is not true of everything we buy, but that is true in connection with trade as distinguished from speculation.

Mr. BERRY. I see nothing there except a difference in degree until you come to the realm of gambling, and it can be easily differentiated. If I bet you $50 one horse will get over the track before the other that is a gambling transaction, because it is certain one of us is going to lose. If one wins the other loses, but in an ordinary transaction it is quite possible ninety times out of a hundred that both men will make a profit on the deal.

Senator REED. That is what I am saying; that is a legitimate trade instead of speculation.

Mr. BERRY. That is speculation, distinguished from gambling, as I just put it.

Senator SHAFROTH. The difference between you is the difference in interpretation of the word "speculation."

Senator REED. I, of course, was using the term "speculation" in my questions awhile ago to cover such things as booming new enterprises without proper regard for business conditions, boom towns, locating acre property in lots, and that sort of thing.

Mr. BERRY. But that would of course have nothing to do with the level of safety.

Senator REED. That may be true, but we can do too much of it.

Mr. BERRY. Very well.

Senator REED. However, I will not pursue the subject further. I am very greatly obliged to you, Mr. Berry. I have no further questions.

Senator SHAFROTH. I want to ask you a few questions. What effect, in your judgment, would the establishment of such a system have upon the level of prices?

Mr. BERRY. I do not think it would affect the level of prices at all, because I do not propose an inflation. An inflation is an injection of money into circulation faster than the demands of business call for that money and in such cases you will always increase prices.

Senator SHAFROTH. To what do you attribute the rise in prices of commodities in the United States or in the world during the past five years?

Mr. BERRY. In the first place, generally speaking, upon a basis of comparison there has been no rise in prices since 1901. We have what we call the phenomena of high cost of living, to wit, a very large increase in the price of the perishable commodities that enter into the daily consumption of our people. This, in my judgment, is due to causes entirely unrelated to the currency volume.

Senator SHAFROTH. Or to the increased volume of gold which has been added to the currency?

Mr. BERRY. Surely. The explanation of that situation is found in the fact that, for reasons which if I had time I would develop, conditions have led our people to herd in the cities at the expense of the country. In the last decade we have had a 2 per cent increase in our suburban population and a 22 per cent increase in our urban population.

Senator SHAFROTH. What effect does that produce?

Mr. BERRY. It produces a demand for the products produced by the country beyond the supply, and necessarily high prices result.

Senator SHAFROTH. And at the same time that small percentage of population in the country has greatly diminished the producing power?

Mr. BERRY. Surely; the supply of those commodities is not adequate to meet the demands for them by reason of the dissolution of growth in the country which has been so great in the cities and so small in the producing sections. If you wish to determine whether or not the currency is redundant and therefore depreciating you should measure your currency against things which are like it, to wit, those things which do not perish in the use and which persist; and if you will take the experience of the country since 1902 you will discover that the average of such property has gone down steadily for the last five years or six years.

Senator SHAFROTH. Such as what property?

Mr. BERRY. Railroad stocks or industrials. The Pennsylvania Railroad has in that period lost, well, 50 points practically—one of the best properties on the face of the earth—and other properties of the same sort are in the same situation. Thirty rails and nine industrials of the very best selection in the United States have lost on an average of 30 points in that time. They have gone down.

They are properly conformable to the money or gold supply, for, like gold, they stay with you. They are here day after day, not like your perishable products.

Senator SHAFROTH. Are there any elements, in your judgment, that would make my question not a fair test by reason of legislation or demand in recent years to eliminate to a certain extent the income on the franchises of railroads?

Mr. BERRY. I think possibly that there are some things of that sort operating to some degree. I do not think they operate to the degree that some would have us believe.

Senator SHAFROTH. So you think, then, that the increased volume of gold has not had the effect upon the country at large of causing an upward tendency of prices?

Mr. BERRY. As compared with the period of 1896 when we had the rock bottom of prices, we had reason to expect a rise in prices, and we experienced it. Up to 1901 it was very considerable in all lines; but since 1901 it has been retrograding—it has been going back.

Senator BRISTOW. Now you take, as confirmatory to a certain extent to the position of Mr. Berry's, the price of wheat. The price of wheat has not gone up any.

Senator SHAFROTH. I think it has a little, though not very much.

Senator BRISTOW. I do not think the price of wheat is as high as it was a few years ago. In the production of wheat there has been an expansion equivalent, probably, to the expansion of our cities' population, while the production of live stock has not been to such an extent. That is easily observable.

Mr. BERRY. Yes, sir.

Senator BRISTOW. Take sugar. Sugar has not advanced in price, because the expansion of the production of that commodity has been greater than the increase.

Mr. BERRY. That is the final test.

Senator SHAFROTH. And it has been greater than the increased production of gold?

Senator BRISTOW. Yes; I think so.

Senator SHAFROTH. Of course, when you are measuring things according to gold you have to take into consideration the increase and decline of the things that gold measures.

Mr. BERRY. Well, the great increase in gold production in 1897 was a combination accompanied instantly by a phenomenal response in productive lines. On your first question as to what effect the injection of $135,000,000 of new legal tender money per year into the country would have on prices, my answer was "None at all," for the reason that it would be met instantly by a revival of production along all lines—a stimulus of business which would equal the situation. In other words, this money would come out only in response to that activity, and therefore it would not affect the prices; but if you were to put out $300,000,000 a year you would affect it. Not only that, but you would soon drive your gold out of the country. You must put it out in response to the demand of business and only in response to the demand of business, otherwise you will have it depreciating just as we had our currency depreciate during the war.

Senator SHAFROTH. Is it also not true that this level of prices is generally a world's level of prices and not that of the United States alone?

Mr. BERRY. Oh, yes; the whole question is a world question.

Senator SHAFROTH. And that any increase of the circulating medium in a country, while it would have a tendency if it was unduly great, to increase prices in the country, would not relatively have that same effect on the world's prices?

Mr. BERRY. The moment you increase prices here you would send the money out of the country. It will go right across the water as soon as you disturb the level. If you inject a credit factor like the national credit in a legal tender note into the currency of the country to any undue proportion it will raise the prices. As soon as you raise your prices your foreign exchange will pull the money out of the country right away.

Senator SHAFROTH. And that will lower prices here?

Mr. BERRY. In other words, each country has a spout that leads into the general monetary reservoir. As you force money into that general reservoir and disturb the level of that reservoir the money must find its proper level.

Senator SHAFROTH. Mr. Berry, you mentioned in your paper about the power of the Bank of England to increase or decrease the rate of interest as being a crime. Now, will you explain what you mean by that and how it works to make it wrong?

Mr. BERRY. Well, in the Bank of England with its reserves being depleted by reason of too heavy discounts, in order to conserve its reserves and restore the discount rates, the inevitable result is to put a brake on the development of business among its clientele. In other words, it is an arbitrary use of power which I do not believe is proper.

Senator SHAFROTH. Then what, in your opinion, will be the effect of the provision of the pending bill which gives the power to raise or lower the rate of discount?

Mr. BERRY. The very same in this case as it is there; it would simply say to people who wished to develop their territory and go hypothecate their perfectly valid securities to get credit with which to do it, "Hold on; we are not ready for you to do that."

Senator SHAFROTH. You think that would have a depressing effect upon business generally and development of the country?

Mr. BERRY. It can have no other purpose than practically stopping the development of the country and setting a brake on the activities of the people. For those who believe that that is the way to run a country, that is a sort of a thing they like. I do not. I am satisfied they are diametrically wrong, and therefore I insist upon it that the office of the Government and the duty of statesmanship is to provide some means whereby the threatened depletion of reserves can be checked by the supplying of more reserves instead of by stopping business which wants to go on in the country.

Senator SHAFROTH. What check would you have in your system for converting bonds into legal-tender money?

Mr. BERRY. No check, except that I would compel the man who had the bonds to surrender them and lose all interest on them.

Senator SHAFROTH. What rate of interest would you prefer to have the bonds issued at?

Mr. BERRY. It is immaterial what rate of interest you issue the bonds at is, provided you do not give them any special privileges, because commerce will take care of the interest rate. If you issue 2 per cent bonds of the United States and go out and try to sell them, you will sell them for about 60, and you will have a commercial interest rate paid on it just the same.

Senator SHAFROTH. Then you would not have any of these bonds come into the Treasury for the purpose of issuing legal tender upon?

Mr. BERRY. Upon these bonds which pay 2 per cent?

Senator SHAFROTH. Yes.

Mr. BERRY. Oh, yes, I think it is incumbent upon the Government to take in those bonds at par.

Senator SHAFROTH. But you would not take in those bonds at the market rate?

Mr. BERRY. No.

Senator SHAFROTH. But you advocate taking in all the other bonds at the market rate. You said that in your judgment a gold reserve of more than 33⅓ per cent could not be maintained?

Mr. BERRY. Ultimately; no, sir.

Senator SHAFROTH. Why is that?

Mr. BERRY. Because the demand for currency in the United States is $200,000,000 per annum.

Senator SHAFROTH. How do you get at that?

Mr. BERRY. Why, I covered it in my paper. I showed you absolutely that the country has had in the last 10 years a billion dollars a year of new credit. If it is to be issued on a 10 per cent basis, the banks would have $100,000,000 of new money. The banks are only able to secure and segregate one-half of the new money that comes into the country. Therefore, if the banks are to get $100,000,000, the country must get $200,000,000 a year, and the gold supply will furnish you 33⅓ per cent of it. Those are the figures. As a matter of course, one does not wish to be held exactly to mathematical nicety about those figures, but that is practically what the situation resolves itself into. If you do not secure $200,000,000 of legal tender money you have only two things to do: You have got to restrain business—refuse credit—or attenuate the reserve, and instead of 9 per cent, as now proposed, you must put it down further.

Senator SHAFROTH. You say the banks need $100,000,000 a year?

Mr. BERRY. Yes, sir.

Senator SHAFROTH. In order to build up their reserves?

Mr. BERRY. Yes, sir.

Senator SHAFROTH. Why do the people need $100,000,000 a year in addition to that?

Mr. BERRY. For the simple reason, as I will explain: I have got a boy starting out in business who wants a bank account. In order to give him the credit he wants, there is a quantity of money required; it is only one-tenth of what his credit is, however. Suppose it is $20 and he wants $200 credit to finance himself. He wants $20 on his hip, at the same time, and he has got to have it and does get it.

Senator REED. Do you mean that those figures show that those proportions are maintained?

Mr. BERRY. For the last 50 years it has not varied 1 per cent. It is not 50 per cent either; it should be only 46 per cent. The banks only get 46 per cent of the money that comes into the country. It has not

varied 1 per cent on either side of 46 per cent in 10 years. That is rather an odd coincidence, but it is true.

Senator REED. Upon what, Mr. Berry, do you base your conclusion that a gold reserve of 20 per cent is sufficient to maintain a currency of full legal tender money?

Mr. BERRY. On this assumption: The banks of the United States are able to maintain a currency with only about 8¾ per cent of cash back of it, 5 per cent of which they furnish, and the rest of which the Government furnishes. If the banks can maintain a currency which is not a legal tender on an 8 per cent basis, I feel absolutely certain that the United States can sustain a currency which is a legal tender on three times that. I think it is beyond question that that percentage of reserves would be all that would be required.

Again, bank credit, which is constantly redeemable, is maintained in the country on an average of 8 per cent reserve; and if bank credit, which is not a legal tender for anything, and is instantly redeemable, can be maintained on 8 per cent basis, certainly the currency of the country, which is a legal tender and only requires redemption for export, can be maintained on a 20 per cent basis.

Senator SHAFROTH. Mr. Berry, Mr. Forgan, of Chicago, when testifying, said that if the present bank currency was converted into a full legal tender money of the Government, that it would produce a great inflation of the currency—no; I believe I am mistaken; it was not Mr. Forgan. Mr. Forgan took the other view. However, one of the bankers from Chicago went on the theory that there would be that much more money that could act as reserve, and inasmuch as you could build up 8 or 10 to 1 on reserves that it would produ e a great inflation of the currency. What is your view of that?

Mr. BERRY. That is my judgment. I am satisfied of that. That is the point I have made all the time. The conversion of that money into legal tender would solve the problem that is before this committee. It would supply the country with the legal-tender basis upon which these $7,000,000,000 of the money that the country at this moment demands and can not get would be supplied.

Senator SHAFROTH. In your judgment, would it be such an inflation as would affect the prices?

Mr. BERRY. No, sir; because it could not come out faster than the demands of business, because the banks are not going to convert that money any faster than the demands for money in their country calls for, and they will do it just as fast as the situation requires, and no faster, because they have got to make a sacrifice to do it.

Senator SHAFROTH. Mr. Reynolds, of Chicago, speaking of that provision of the bill I introduced, converting the bank currency into full legal tender, said that in his judgment the banks would voluntarily offer to surrender their circulation and deliver their bonds upon giving to them full legal-tender money for the bonds, or for the excess, the bonds being hypothecated here in the Treasury Department. In your judgment would that occur?

Mr. BERRY. Yes, sir; I think it would, ultimately; it would not occur suddenly; no man would give up his bond or his currency or his circulation until the demands of his business called for it, and when they do, he will, and just in proportion as it does, he will.

Senator SHAFROTH. His theory was that if the bonds were on the market they would sell at a much less rate than par; that it would be

natural for their interests to cash those 2 per cent bonds so that they would lose nothing on their circulation.

Mr. BERRY. My judgment about it is this: There is a certain proportion of those notes that are redundant. As fast as they were converted that redundancy would disappear. If the banks were not troubled to maintain redemption for these notes, they would have no disposition whatever to redeem them, and to the extent that they are redundant they would be, I think, speedily converted.

Senator REED. Well, but you say that there is not a redundancy of currency now, but there is a shortage.

Mr. BERRY. There is a redundancy of the bank note brought on by the fact that it goes back for redemption, the entire issue in 12 months. If it were not redundant, it would not do that.

Senator REED. You say it goes back because you can not use it for reserve?

Mr. BERRY. Sure.

Senator REED. It is not redundant because it is not currency, but because it is an inferior variety of currency?

Mr. BERRY. That is it.

Senator SHAFROTH. Do you think it would be to the advantage of banks to exchange that currency for the full legal-tender money in order to have it a reserve upon which they could build credit?

Mr. BERRY. Sure.

Senator SHAFROTH. And for that reason most of the bankers of the country would voluntarily come in and surrender their circulation and have full legal-tender money issued.

Senator REED. To take up the bonds?

Senator SHAFROTH. Yes; to take up the bonds.

Senator BRISTOW. Mr. Berry, I was interested in your discussion as to the increase of the currency not increasing prices, unless it was overdone, and you estimated that in the issue of $200,000,000 additional money in the year would not overdo it. Do you not think that conditions outside of this country might make business dull here; that is, if there should be a lessened demand abroad for our export production, so that we did not have a sale for the things that we make and that caused a dull market, would not that result in a depression of business?

Mr. BERRY. Well, it might, but I think that the foreign trade of the Nation is so negligible as compared to the great volume of trade that if it were all to disappear it would not make any serious impression on the situation.

Senator BRISTOW. Mr. Berry, while the foreign trade is small as compared to our domestic commerce, yet you take a reduction of 15 or 20 per cent in the aggregate business of any concern and it is a very serious thing for it, as a practical thing, is it not?

Mr. BERRY. Sometimes it might be; but this is the way I look at it, Senator: Our foreign trade is far less than that of Britain, it is far less than that of Germany, and yet it is still true that the trade of the United States comprises one-half of the trade of the known world, so that it seems to me like the foreign factor in our trade is practically negligible; but I can not conceive of a condition in which it would all disappear. It might, but it is a very violent assumption.

Senator BRISTOW. Of course, it would not all disappear, no; that is not at all possible. The rate of interest on these bonds which you suggest as the basis of this currency, you say is of no consequence?

Mr. BERRY. That is the stated rate on them, because the actual rate will be the commercial rate for safe investment, whatever it is.

Senator BRISTOW. Suppose they were 3 per cent bonds. At times they would sell for par and at other times they would not?

Mr. BERRY. I think we would ultimately come to a time when they would sell continuously at par. I think the natural interest rate is about 3 per cent and that the interest rate would come down sufficiently to maintain a 3 per cent bond at par; that is, a Government bond.

Senator BRISTOW. Suppose they were sold at par. What condition could result in their advancing to a premium?

Mr. BERRY. Nothing, except the fall of the interest rate.

Senator BRISTOW. The fall of the interest rate?

Mr. BERRY. Yes.

Senator BRISTOW. The increase of the interest rate then would reduce them below par?

Mr. BERRY. Yes.

Senator BRISTOW. If they went down to 95 that would be because of the increase of the interest rate, what advantage would it be to anyone holding any of those bonds to go to the Treasury and get $95 in currency?

Mr. BERRY. It would not be of any advantage to a private citizen, but to a banker it would be an immense advantage. If I was a banker and had $1,000 of those bonds, and my reserves depleted, and one of my customers wanted to borrow—I am speaking of an outlying bank—and I could not lend it because I did not have any reserve fund—I have a $1,000 investment at current rates, whatever they are—if 95 on the basis of 3 per cent, that is what it is—it would pay me to surrender that investment of $1,000, in order to take on a $7,000 investment at current rates. As a banker, I could do it; as an individual I would not do it.

Senator BRISTOW. You would go then and sell that $1,000 worth of bonds for $950, and lose $50 in the transaction?

Mr. BERRY. Sure.

Senator BRISTOW. You would have to make up that $50 in the loan you were making to that individual?

Mr. BERRY. Yes.

Senator SHAFROTH. His loan to the individual would be $7,000.

Mr. BERRY. The loan to the individual would be seven times the $1,000.

Senator BRISTOW. Why would it?

Mr. BERRY. That is the basis upon which you can do it; that is the secret of banking.

Senator BRISTOW. I can not see through that.

Mr. BERRY. That is the way it is done. There is not a dollar of it in the country that is not carried just that way.

Senator BRISTOW. He has $950, and that is all the money he has, and he loans that $950.

The CHAIRMAN. He loans it over and over again.

Senator BRISTOW. I know that $950 is redeposited. As a rule, instead of a man taking the $950 which he has borrowed, he takes——

Mr. BERRY. He takes credit on the bank books.

Senator BRISTOW. He takes credit on the bank books, and takes a check book along and checks it out. Now, the bank has that $950

there, or the most of it, as a checking account, and he knows from his experience that a certain part of it is going to be left there anyway, and he can afford to loan it.

Mr. BERRY. Sure.

Senator BRISTOW. And meet all of the requirements?

Mr. BERRY. In other words, the banker would be the only man who could afford to merge these bonds into currency, and he would do it whenever a legitimate loan presented itself, and he would not do it when the loan was illegitimate, because he has got to stand behind his loan, and if he loses it he loses it; and he will not take on a bad loan simply because he can sell a $1,000 bond, but he will take on every good loan he can buy through that process.

On the other hand, I, as an individual, have my money invested in the bond, which is as good an investment as I can buy. I do not want to sell it. I have bought it for investment. But the banker can merge it. He is the only man who can, and he will; but only in response to the demands of business which precedes the issue.

It is only within the last 5 years, after 30 years of study of this problem, that I have been able to see clearly a safe way in which we could absolutely dispense with the individual supervision of the issue of legal-tender paper. I do, now, see it absolutely clearly, safe as a clock—absolutely safe; perfectly and entirely automatic, no advisory board or anybody. It is simply between the banker and his customer; and the natural demands of business will govern, and only the demands of business.

It is perfectly clear that if gold production should be stimulated, and some gold miner should come in and deposit a wad of money, he will not merge any bonds. He has the reserve without it. The mutations of gold production will be met absolutely by the mutations of currency issue. It is the most beautiful automatic proposition that a man can imagine. Not only that, but the mutations of business and the mutations of crops will be met by it. It is hardly conceivable that we will have a crop condition here which will destroy two-thirds of the business of the United States within a year, and unless you do, you still need some legal-tender money along with your gold, for that gold will only carry one-third of the business, and you still need an increment of legal-tender money; but if one-third of your crops fail, instead of issuing $135,000,000 that year, you will only issue $65,000,000, because that is all that the business calls for, and you will not have to lay awake, the board or anybody else; simply the man right out on the margin, the man in the immediate touch with the business is the man who does it.

Senator BRISTOW. Suppose this interest rate was fixed at 3 per cent and the Government would issue currency on these bonds at any time and receive them at par, what would be the result?

Mr. BERRY. I think you would lose a very essential feature in the automatic system. You might have occasion, if the interest rate at large, for instance, should increase and 4 per cent should become the general rate, then all these fellows would rush in there and surrender those bonds.

Senator BRISTOW. Then the interest rate would go down?

Mr. BERRY. Well, no matter. You would have a loosening of the automatic process, because you would have an extraneous circum-

stance operating upon it other than the demands of business, but if you hold to the market value of the bond then it does not make any difference where the interest rate goes. This surrender means a surrender at the current interest rate. It varies with the situation all the time. If you have the market price of the bond as the determining factor, then the individual man can sell that bond. Individuals would rush in, you see, to do it. Because I have a 3 per cent investment and I can get 4, and I will sell my 3 per cent bond at once but if I can not sell it only on a 4 per cent basis it is not going to do me any good and I will not do it; it is an automatic situation.

Senator BRISTOW. With the rate on a Government bond at 3 per cent, that bond would sell to an investor, even if he could get 4 per cent, or even possibly 5 per cent, in other investments, because of the desirability of the security?

Mr. BERRY. Sometimes that is true, yes, sir. Of course, I am comparing it with other things that are equally safe.

Senator BRISTOW. There are some desirable things about a Government bond. It is not taxable, and that would not measure the rate of interest, but it would have a tendency, would it not, to make stable the rate of interest?

Mr. BERRY. No; I do not think so. I think it would have a tendency to bring the general rate of interest down; that is what I think, because it would meet the demand for credit, and whenever you have a market in which the demand is equal to the supply, you have a credit rate established which will be dependent upon the cost of extending it, and not upon the exigencies of the situation.

Senator BRISTOW. If that interest rate was 3 per cent and the prevailing interest rates were 6 and 7 per cent, if a man could get 7 per cent for his money a good many of them would part with the bonds and undertake to earn more than 3 per cent on their investments?

Mr. BERRY. Yes.

Senator BRISTOW. And whenever they began to part with their bonds it would have a tendency to depress the advancing interest rate, would it not?

Mr. BERRY. Yes.

Senator BRISTOW. Would not that be desirable?

Mr. BERRY. Sure; that is what I say; that is the ultimate outcome of it—the inevitable establishment of an interest rate based upon the cost of extending credit rather than upon the stress of circumstances.

Senator BRISTOW. Would this tendency to regulate the interest rate be so manifest if the bonds were redeemed by the Government and notes issued at their market value instead of at their face value?

Mr. BERRY. Oh, yes; I think so; that is a necessary characteristic. You must use the market value. I do not think it would do at all to have them redeemable at their face value.

Senator SHAFROTH. They would all rush in at one time?

Mr. BERRY. They would all rush out at one time, and you would have no automatic feature about it.

Senator SHAFROTH. I think that is right.

Senator BRISTOW. I do not think I got one point very clear. You may have explained it while I was out—as to how you would proceed to substitute this currency for the currency that we now have. What would be the methods?

Mr. BERRY. Well, Senator Shafroth's bill or Senator Owen's bill, either one would answer the purpose. I would pass a bill which would authorize the United States Treasurer to accept the 2 per cent bonds, together with the currency that is floating upon them, in exchange for legal-tender money at par, on these 2 per cent bonds, as far as they lasted, because I think it is an obligation upon the Government to take them in at par.

Senator BRISTOW. And they would be presented, of course?

Mr. BERRY. Whenever the bank wanted the money, and only then; they would not all rush in at once, because the banks do not all want the money at once. If there is a bank that wants money and needs it to meet the demands of the situation, let it come in with its bonds and get the money, and let them come whenever they please and let them be just as long about coming as they please—no force about it.

Senator BRISTOW. Let the gold certificates stand just as they are?

Mr. BERRY. Just as they are, unless you wanted to substitute them finally with a Treasury note, which I think would be the wise thing to do—have one kind of money and only one kind of money, every piece of which is a gold certificate to all intents and purposes.

Senator BRISTOW. We have got now $150,000,000 of reserve gold which is usable for this purpose. When these bonds are surrendered and additional notes are issued, then additional gold must be provided. How do you propose to provide that?

Mr. BERRY. Well, you have $150,000,000 which is about 33⅓ per cent of the reserve, against these notes, and if you do not succeed as you have in the past in securing voluntarily from the people gold in exchange for your paper—that is what we have been doing—you would have to say at once, "Now, we will not issue any more gold certificates—no more of these 'warehouse' receipts, but if you have a bunch of gold and it is too heavy for you, bring it to me, and I will give you paper for it—paper which I will pay you gold for whenever you want it, but against which I will not maintain a 100 per cent of gold."

Senator BRISTOW. Suppose they did not bring it?

Mr. BERRY. If they did not bring it, you will have to go into the market and sell your bonds to get gold. In other words, where you take in two bonds of $1,000, you will have to sell one, if you want 33⅓ per cent. If you take in three bonds, you will sell one back for gold.

Senator BRISTOW. Do you not think there would be danger in the transition period of your gold certificates going above par?

Mr. BERRY. No, sir; not the slightest danger. Last year there were issued $43,000,000 of gold certificates, and there were only $42,000,000 of gold come into the country; $3,000,000 of the old stock went into the certificates.

Senator BRISTOW. As commonly termed here, those are "warehouse" certificates. The people go down there and they deposit this heavy and bulky material that loses by erosion a great deal in commerce, and they take these certificates that can be reproduced without any loss, and it is common, ordinary business sense for them to do it; but that is a certificate that I have in the Treasury of the United States, stored away there, $20 in gold, and I can get it any time I want it. This other is a certificate that the United States will pay me $20 in gold if I demanded it. Now, its value depends upon the ability of the United States to meet that obligation?

Mr. BERRY. Yes.

Senator BRISTOW. The other's value depends upon the integrity of the United States in keeping its contract?

Mr. BERRY. Yes; the same thing.

Senator BRISTOW. Oh, no. One is a trust fund that is there, that the Government has got to steal in order to take it away from you.

Mr. BERRY. You have a contract with the gold-certificate holder that you will keep his dollar there until he brings his certificate. That much is on a 100 per cent basis, and you can not change that until he is willing to change it, but you say to him, "Now, I will not do that for you any more; and if you do not want to take this kind of certificate for your gold, why, keep your gold"; that is all. You say to him, "I will give you legal-tender paper for that gold, if you want it, and I will give you gold for the legal-tender paper whenever you bring it, but I will not arrange to hold 100 per cent reserve against it, but I will arrange and pledge the Nation behind me to give you what gold you want when you come after it." You will find he will come just as quickly to get that kind of a paper dollar as he will for the one he gets now.

Senator BRISTOW. Why do the bankers say that this $345,000,000 of greenbacks ought to be retired; that it is bad money, ought not to have been issued, and ought not to be maintained?

Mr. BERRY. I never could understand that. I do not want to impute a sinister motive to anybody. I do not think probably it has a sinister motive back of it; but naturally if I am in the coal business, I do not want any more competition in the coal business than I must have. I want the market where I can control it, and this $350,000,000 of legal-tender paper in this country is a part of the currency that the bankers have never been able to exercise any control over, and they have always opposed it. To-day that $350,000,000, together with $650,000,000 of silver certificates and coin—a billion dollars of that kind of money—is afloat in this country and practically carrying one-half of the business of this Nation to-day, and without it we could not do one-half of the business we are doing. Not a dollar of it has ever been offered for redemption since 1893. Then, as I said to you in my general statement, the cause of that offering was just such as we would meet again if the same condition were repeated. We had been exporting gold at the rate of $35,000,000 for 10 solid years and we ran out of gold and the Government simply had to furnish it, and did the only thing it could do—went out with its bonds and bought it and furnished it; and that is what we would have to do again if the same conditions were repeated. We made a bad bargain buying some of it, but bad as it was, it had to be done and it was the proper thing to do. There was nothing wrong nor incongruous about it; a perfectly natural proposition. We had had 10 years of exporting in which we put out $35,000,000 each year, excess of the exports over imports. During the years previous to that we had imported gold and we had quite a stock of gold when that drain began, and it went out continuously for 10 years, due to the balance of trade set up by crop conditions in the two sections of the world. As soon as that changed—and it did change almost immediately after that—gold began to come back into the country again, and we have not had any trouble since.

Senator SHAFROTH. Mr. Berry, you said that the bankers were unanimously against a currency of this kind. I want to call your attention to the fact that in an article——

Mr. BERRY. I want to qualify that, if I said "unanimously." I want to say there are some notable exceptions.

Senator SHAFROTH. This paper I refer to was written in March, 1908, by Newton D. Alling, vice president of the National Nassau Bank of New York, in which he uses this language:

> And that is what this new issue should be; a gold note based upon a certain specie reserve which should be a percentage rather than a fixed amount. To many such an issue appears as fiat money and they at once throw up their hands and refuse to consider it. But it is not fiat money any more than gold is, as long as it is always redeemable in gold. To be sure, it should be given the legal-tender quality in order to give it an equal power with gold in order to make it a better representative of the gold for which it stands.

Mr. BERRY. That is all right; I agree with that. I might have written that myself.

Senator SHAFROTH. The sentiment just expressed in that quotation I have read exactly conforms with your theory of the character of money that should be issued?

Mr. BERRY. Absolutely.

Senator REED. I wanted to ask Mr. Berry to give me a little light on this: If the Government was to issue money with bonds and gold as the basis—20 per cent reserve of gold—to carry out the plan which you have already outlined, but which I need not repeat, as the record will show it, what will there be to hinder the banks gathering up large amounts of this paper and making demand upon the Government for gold, depleting the reserve and forcing the Government to sell its bonds in order to replenish the gold?

Mr. BERRY. Well, sir, if you can conceive of the possibility of the banks doing that—of course, it is hardly supposable that the whole banking fraternity would go into that conspiracy, or any considerably large percentage of them go into a conspiracy, for that purpose. If you can conceive that they are going out in the gold market in this country, where we have $1,600,000,000 of gold in the circulation, and making a demand for gold that would force the hands of the United States, then there is a possibility that there would come a time when the United States would be forced to sell bonds.

Senator REED. Could not that device be used to compel the United States to sell bonds and being compelled to sell them and compelled to get the gold to pay a very high rate of interest?

Mr. BERRY. If you can conceive that possibility of their going out in this market where $1,600,000,000 of gold is in existence, and if where $100,000,000 of gold a year is produced and brought into the game, if you can conceive of the possibility of cornering that market, then your surmise is possible. I have no fear of it myself, because I think it is impossible to corner that market.

Senator REED. There is no such a thing as having a gold reserve that can not be attacked by that process, unless you have dollar for dollar, is there?

Mr. BERRY. No; and I do not see why you can not attack it then just as well.

Senator REED. You could; but of course you could pay out.

Mr. BERRY. If you were obliged to hold 100 per cent you would be in just the same fix.

Senator REED. Where a man brings you in $1,000,000 you give him $1,000,000 worth of gold?

Mr. BERRY. You have got $1,000,000 of bonds to make the reserve good. If you have to maintain it at 100 per cent, you have got to go out and sell bonds to put it in.

Senator REED. You did not understand. If we had no money out into the country except that had a dollar of gold lying back of each dollar issued, then, of course, they could not raid the Treasury, because when they brought in a gold certificate and got a gold dollar their gold certificate would be retired?

Mr. BERRY. Sure.

Senator REED. Unless you do have 100 cents of actual gold reserve for every dollar's worth of certificates out it is always conceivable that some kind of a raid can be made.

Mr. BERRY. Yes, sir.

Senator BRISTOW. Senator Reed, if I may interrupt you, could that be done now by gathering up the national-bank notes and going in and demanding gold for them?

Senator REED. Could it be done?

Senator BRISTOW. Yes.

Senator REED. I do not see any reason why it can not be done, and I do not see any reason why you should not take the national-bank notes and gather them up and go to a bank with its own notes and demand gold, and there is not a bank in the country which could redeem its own circulation at once.

Senator SHAFROTH. There is no profit in doing it, and therefore it is not done.

Senator REED. If it goes on this way with the banks at present, it would seem that it might go on that way with the Government provided we keep within such bounds and limits that the financial men of the country and the country itself did not become alarmed. I confess I have never seen a method by which you can maintain a parity of money with 20 per cent reserve except the element of faith enters into it.

Mr. BERRY. I do not think the element of faith would enter into it, Senator. There is the element of faith, in a certain sense now, back of it, that the Government will maintain its integrity. The Government in order to get this money out, understand, cancels a bond obligation. It has got that bond, and according to Senator Owen's proposition he proposes to put that bond right in the reserve fund and to allow it to draw interest which will accumulate in the fund, which is not a bad idea. So that stands potentially, on the instant, the bond ready to be thrown on the market to get the gold. If the Government of the United States can not beat the banks it is pretty nearly time we found it out.

The CHAIRMAN. Mr. Berry, right here I call your attention to the National Bank of Belgium, with 40,000,000 pounds of assets, which only keeps a reserve of 19 per cent of gold against its notes, and it has been perfectly successful in doing so.

Mr. BERRY. Absolutely.

Senator SHAFROTH. Canada has 25 per cent reserve in gold.

Mr. BERRY. That is the reason I called your attention to the Belgium situation. If you have read carefully the history of the Belgian

banking system you have found that it is the most interesting of the whole European banking systems.

The CHAIRMAN. That confirms what you say about possibilities even without the Government behind it, as suggested here.

Senator SHAFROTH. I have had a question that was presented to me to ask you. It is this:

Would not an interchangeable bond be absorbed as a permanent investment security and refuse to come out for exchange into Treasury notes?

Mr. BERRY. Well, I do not think so. I do not see why it should. Of course, the holder of that bond in this primitive form of investment might demand a little premium on it when the bank wanted it for this purpose, but a little extra pressure and a little more raise in the interest rate will bring it out. It is bound to do it. You just let that pressure loose so that it will always be effective, and if there is any resistance against its coming out, the interest rate crawls right up and begins to pull harder and harder until it comes over.

Senator BRISTOW. Of course, if the bonds bear a higher rate of interest, it would take a higher commercial rate of interest to bring it out?

Mr. BERRY. Sure; but that would be corrected in the selling price of the bond, Senator. If I had a 6 per cent Government bond, for instance, and the general interest rate was 4 per cent, that bond would sell for 120, and I could coin it at 120.

Senator BRISTOW. How would you determine the marketable value of a bond?

Mr. BERRY. That would have to be done, I think, by an average of a certain period prior to the transaction. These securities are listed in the market all the time, just as they always are—they have no special privilege—and they would have a market value. There would be no day or season of the year in which this could not be done.

Senator REED. Mr. Berry, could you not add an element of absolute safety to your plan if you would provide that instead of the Government issuing $1,000 of Treasury notes whenever a man comes in with his bond for $1,000, that the option of determining that be in the Secretary of the Treasury or in a board, if we wanted to create one. We have got it now so that you can not go to Heaven without a commission.

Mr. BERRY. My hands are up. I do not believe there is any man here or elsewhere who ought to have anything to do with it.

Senator REED. As a check upon it?

Mr. BERRY. We do not want a check upon it. Why should you wish to check it, Senator?

Senator REED. If it was thought that it might run away, the plan could simply be adopted and a check put upon it until the plan was tried out.

Mr. BERRY. Yes; you could do that as an experimental safeguard, I suppose.

Senator SHAFROTH. I want to ask Mr. Berry another question concerning whether there is in this bill any provision that would not contemplate the retirement of the bank currency without any reissue?

Mr. BERRY. Unless I have sadly misinterpreted the bill, it seems to me like it contemplated the retirement of the bank currency and the issue of Treasury notes in place of them, on 33⅓ per cent basis of reserve.

Senator SHAFROTH. But that only upon the hypothecation by the bank of 30, 60, or 90 day paper?

Mr. BERRY. No; not as I understand it.

Senator SHAFROTH. There is no currency under this bill that is contemplated to be issued without the hypothecation of 30, 60, or 90 day paper; and to have that system take the place of a permanent $700,000,000 of our circulation in the shape of bank notes, it seems to me, might jeopardize our currency very much indeed before retirement.

Mr. BERRY. Well, if they are retired without substituting them, it would be a serious contraction which would result in a catastrophe.

Senator SHAFROTH. Prof. Sprague, I think it was, or some one, said that there would not be sufficient transactions in 30, 60, or 90 day paper to take in the bank notes and issue money upon that temporary paper to permanently supply its place. What do you think of that?

Mr. BERRY. I do not know anything about that. I do not know how much of that kind of paper there is out.

Senator SHAFROTH. Do you think that the money that should be issued, called in this bill "Treasury notes," should be only for temporary emergency paper?

Mr. BERRY. That is what it will be, unless it is made legal-tender paper—it will only be temporary—because it will come back by the process of redemption, just like the bank note does, but if it is given the legal function it will stay out, and then it involves the incessant, endless chain of the substitution of new paper every 90 days for the old paper.

Senator SHAFROTH. And do you think that it is practicable to do that for as large a volume of money as the national-bank notes?

Mr. BERRY. I do not.

Mr. H. J. BROWNE. Assuming that this convertible bond bears a current rate of interest which will make it attractive for permanent investments, and then it became necessary to hold the price of those bonds to get them out from the permanent investment, what is there to stop hoisting the price of those bonds to some incredible figure, so long as they may be presented to the Treasury for redemption at that market price in legal tender, and the legal tender may then be presented to the Treasury for redemption in gold? It looks like an endless chain with no limit on the price that the issue bonds could be held at.

Mr. BERRY. I see the point of your inquiry. I would simply say that the remedy, in case such a condition were set up—for I assume that such a condition would never be set up except through a conspiracy—the remedy would be for the Government to immediately unload bonds on the situation.

Senator SHAFROTH. Could there not be a power invested in the Secretary of the Treasury to issue the money in his discretion and thereby make a check upon any of these abnormal situations?

Mr. BERRY. I would not want to put in anybody who would have any arbitrary control of the situation. I wish to have an automatic response, and I do not see any reason for that fear. One can conjure up, as did Senator Reed, a situation in which you could imagine how

the cornering of the gold might force the same situation. There the cornering of the bonds would furnish the same situation. There is not any question about that, on the one hand, as I have answered in the matter of the gold supply being of such volume that that corner is practically impossible; whereas in the second place, the Government having a store of bonds in its vaults, the minute it discovered that that scheme was in process would unload its bonds on the market and break that corner in no time, if we were driven to that extremity. I do not think that either one of those things would ever happen. I can not see any reason why they should.

Senator BRISTOW. If this bond was redeemable only at par, that could not happen, could it?

Mr. BERRY. No; that could not happen, but still——

Senator SHAFROTH. But you get your gold in partly because the rates of interest of one year differ from the rates of the next year.

Senator BRISTOW. That would have a regulatory effect on the rate of interest.

Senator SHAFROTH. It would only go to a premium where the money was worth more.

Senator BRISTOW. That may be, but we have known it to go to a premium of 10 per cent.

Mr. BERRY. Your thought is pertinent there, Senator, that when the interest rate rose you would be all right, but when the interest rate fell, then you would be——

Senator BRISTOW. Then it would be the other way?

Mr. BERRY. Yes, it would be the other way.

Senator SHAFROTH. What if the bonds fell below par?

Senator BRISTOW. The interest rates would be high when the bonds would be below par.

Mr. BERRY. Yes, that is so.

Senator BRISTOW. When the interest rate goes up the bonds would go below par, because the owner of the bonds would take the bond and get the cash and loan it at a higher rate than the bonds called for?

Mr. BERRY. Yes.

The CHAIRMAN. The committee feels greatly indebted to you, Mr. Berry.

The committee will now stand adjourned until 1 o'clock to-morrow.

(The documents submitted by the chairman of the committee follow.)

Paper currency of the United States, by denominations, outstanding June 30, 1912.

Denominations.	United States notes.	Treasury notes, 1890.	National-bank notes.	Gold certificates.	Silver certificates.	Total.
$1	$1,836,994	$373,606	$343,588		$161,327,436	$163,875,624
$2	1,374,959	241,744	164,312		62,854,116	64,635,131
$5	169,049,930	688,160	141,565,470		227,178,187	538,481,747
$10	114,137,926	898,470	328,508,870	$226,435,300	20,757,611	690,738,177
$20	12,192,432	434,970	224,856,140	256,496,964	4,488,670	498,469,176
$50	1,841,375	14,550	16,373,800	55,053,055	4,417,760	77,700,540
$100	4,696,400	166,500	35,032,350	80,127,550	480,220	120,503,020
$500	4,470,000		89,500	18,239,000	22,000	22,820,500
$1,000	38,077,000	111,000	23,000	66,765,500	23,000	104,999,500
$5,000				95,020,000		95,020,000
$10,000	10,000			241,920,000		241,930,000
Fractional parts			50,684			50,684
Total	347,681,016	2,929,000	747,007,714	1,040,057,369	481,549,000	2,619,224,099

Memorandum indicating probable changes in reserves under H. R. 7837.

[52 central reserve city banks now on 25 per cent basis.]

[All dollars in millions.]

Net deposits	$1,568
Required reserve	392
On hand, cash and legal tender	405

Under new bill: Nine per cent in vault, 4½ per cent in Federal reserve banks, 4½ per cent optional.

Under the new bill, assuming that the optional reserves would be equally divided in all cases between the banks' own vaults and the Federal reserve banks, and that the funds of the Federal reserve banks could be loaned up to 33⅓ per cent requirement, and would be actually loaned up to 50 per cent, the following results would follow:

Cash, 9 per cent=$140+½ of 4½=$35 in own vaults	$175	$175
Net cash required, 4½ per cent+½ of 4½ per cent=$105 (⅓ to ⅔ loanable) in Federal reserve banks	35	53
Capital stock, $182, and $18 required (⅓ to ⅔ loanable)	6	9
Net requirement	216	237

Total requirement, $216 to $237, against $405 on hand.
Surplus available, $168 to $189.

[315 reserve city banks now on 25 per cent reserve basis, one-half with reserve agents in central reserve cities.]

Net deposits	$1,945	9 per cent=$174, cash.		
Required reserve	468	5 per cent= $97, Federal reserve banks.		
Specie and legal tender	248	4 per cent= $77, optional.		
With reserve agents	232	In vault, $174+½ of $77=$212. Cash, $212	$212	$212
Additional reserve	28	In Federal reserve banks, $97+½ of $77=$135. One-third to one-half cash	45	68
Capital stock	264	For capital stock, one-third to one-half of $26	9	13
		Total cash	266	293

Cash actually required, $266 to $293. On hand, $248.
Additional cash needed, $18 to $45.

[7,173 country banks now on 15 per cent reserve basis, 6 per cent in vault 9 per cent with reserve agents.]

Net deposits	$3,610	New bill requires 5 per cent cash in vault.		
Required reserve	541	5 per cent in Federal reserve bank, 2 per cent optional.		
Specie and legal tender	266	5 per cent=$180, in vault.		
With reserve agent	310	5 per cent=$180, in Federal reserve bank.		
Additional reserve	186	2 per cent=$72, optional.		
Capital, $610.		In vault in cash	$180	
		Plus one-half of $72	36	
			$216	216
		One-third to one-half cash required for Federal reserve bank	60	90
		One-third to one-half of one-half of $72 for Federal reserve bank	12	18
		10 per cent of capital, $610, for stock (two-thirds to one-half loanable) cash needed	21	31
		Total actual cash required	309	355
		Less actual cash on hand	216	216
		Deficit cash	93	139

Summary after considering net cash requirements, after discounts permissible to member banks.

52 central reserve cities have surplus cash equal to			$168	to $189
315 reserve city banks have deficit cash equal to		$18 to $45		
7,173 country banks have deficit cash equal to		93 to 139		
	111	184	184	111
Cash deficit or surplus			−16	+78

To which should be added one-half to two-thirds of $210 United States cash in Federal reserve bank	$105	$140
And 10 per cent of $500 of savings deposits (assuming 5 per cent reserve instead of the present 15 per cent required)	50	50
	139	268

Available—minimum legal tender cash $139 to $268 maximum—loanable on basis of 12 per cent to 18 per cent, making possible an expansion of credits equal to a sum from four and a half to seven times such minimum or maximum as such cash may be in country banks or reserve city banks, a probable average expansion of credit from $600,000,000 to $1,500,000,000.

Bonds held in trust for National Banks Sept. 13, 1918.

	Kinds of bonds.	Rate of interest.	Total amount outstanding.	Bonds held for national banks.			
				Total.	To secure circulation.	To secure deposits of public moneys.	
						Value at par.	Value at rate approved by department.
	GOVERNMENT.						
I.	U. S. loan of 1925, at par	4	$118,489,900	$37,992,400	$34,390,700	$3,601,700	$3,601,700
I.	U. S. loan of 1908–1918.....at par	3	63,945,460	25,891,200	22,132,200	3,759,000	3,759,000
I.	U. S. Panama of 1961.....at par	3	50,000,000	17,296,200	.....	17,296,200	17,296,200
I.	U. S. consol of 1930, at par	2	646,250,150	616,521,300	603,775,900	12,745,400	12,745,400
I.	U. S. Panama of 1936.....at par	2	54,631,980	54,249,360	52,964,860	1,284,500	1,284,500
I.	U. S. Panama of 1938.....at par	2	30,000,000	29,424,140	28,822,140	602,000	602,000
I.	Philippine loans, at par	4	16,000,000	5,967,000	.....	5,967,000	5,967,000
I.	Porto Rico loans, at par	4	5,225,000	1,821,000	.....	1,821,000	1,821,000
I.	District of Columbia.....at par	3.65	6,949,650	933,000	.....	933,000	933,000
II.	Territory of Hawaii, 4½ per cent bonds at 90 per cent of par; all other Hawaiian bonds at market value, not exceeding par	(1)	6,515,000	1,998,000	.....	1,998,000	1,950,900
	MISCELLANEOUS.						
III.	Philippine Railway Co.	4	3,551,000	118,000	.....	118,000	600,271
III.	Manila Railroad Co., at 90 per cent of market value, not exceeding 90 per cent par	4	6,735,000	10,000	.....	10,000	6,750
IV.	State, county, city, and other securities[2]	(1)	.....	33,609,254	.....	33,609,254	22,376,208
	Total	.....	1,013,293,140	826,630,854	742,685,800	84,545,054	73,144,029

[1] Various.

As security for deposits made in connection with crop movement Government bonds are accepted at par, other bonds at 75 per cent of market value, and commercial paper at 65 per cent of face value.

Other outstanding bonds, $186,662,286.

When banks have occasion to withdraw bonds held by the Treasurer to secure deposits of public moneys, the following shall be the order of withdrawal: Group IV, Group III, Group II, and Group I.

Bonds within a group may be interchanged by banks if desired, but bonds in a lower group may not be substituted for those in a higher group, except that an initial substitution of bonds of a lower group for those of a higher group may be made to an amount not to exceed 30 per cent of the total security value of bonds held for a particular bank. National-bank depositaries which have not as yet taken out the full amount of circulation authorized by law may withdraw United States 2's and substitute for them bonds in Group II, provided the 2's as withdrawn shall be used as security for additional circulation.

Daily statement of the United States Treasury at close of business Sept. 16, 1918.

CASH ASSETS AND LIABILITIES.

GENERAL FUND.

ASSETS.		LIABILITIES.	
Cash.		*Current liabilities.*	
In Treasury offices:		In Treasury offices:	
Gold coin	$48,606,805.49	Disbursing officers' balances	$76,262,736.16
Gold certificates	64,572,850.00	Outstanding warrants	1,823,968.69
Standard silver dollars	3,740,127.00	Outstanding Treasurer's checks	7,476,697.99
Silver certificates	13,183,004.00	Post Office Department balances	12,361,625.16
United States notes	5,537,393.00	Postal-savings balances	1,509,009.54
Treasury notes of 1890	4,488.00	Judicial officers' balances, etc	6,343,080.42
Certified checks on banks	301,582.00	National-bank notes, redemption fund [1]	20,066,436.00
National-bank notes	151,792,202.02	National-bank 5 per cent fund	28,071,077.85
Subsidiary silver coin	15,527,844.36	Assets of failed national banks	10,110,129.54
Fractional currency	347.26	Coupons and interest checks	131,107.19
Minor coin	1,608,335.63	Miscellaneous (exchanges, etc.)	7,171,832.34
Silver bullion (available for subsidiary coinage)	2,091,539.21	Total	171,927,194.12
	210,658,577.97	Subtract checks not cleared	23,472,913.67
In national-bank depositaries:			148,454,210.45
To credit of Treasurer United States	62,676,478.39	In national-bank depositaries:	
To credit of postmasters, judicial officers, etc	6,346,620.86	Judicial officers' balances, etc	6,346,620.86
In treasury, Philippines:		Outstanding warrants	509,200.05
To credit of Treasurer United States	3,016,856.05	In treasury, Philippines:	
To credit of disbursing officers	3,430,796.73	Disbursing officers' balances	3,430,796.73
		Outstanding warrants	1,291,932.00
			160,032,760.10
		Net balance in general fund	126,096,569.90
Total	286,129,330.00	Total	286,129,330.00

THE CURRENCY TRUST FUNDS THE GENERAL FUND, AND THE GOLD RESERVE FUND.

ASSETS.		LIABILITIES.	
Currency trust funds:		Outstanding certificates:	
Gold coin	$866,618,964.00	Gold certificates outstanding	$1,084,234,189.00
Gold bullion	217,615,205.00	Silver certificates outstanding	488,916,000.00
Total gold	1,084,234,189.00	Treasury notes outstanding	2,614,000.00
Silver dollars	488,916,000.00		
Silver dollars of 1890	2,614,000.00		
Total currency trust funds	1,575,764,189.00	Total outstanding certificates	1,575,764,189.00
General fund: Total cash assets, as above	286,129,330.00	General fund liabilities and balance:	
		Total liabilities, as above	160,032,760.10
		Balance in general fund, as above	$126,096,569.90
Gold reserve fund:		Gold reserve [2]	150,000,000.00
Gold coin	100,000,000.00	Total net balances	276,096,569.90
Gold bullion	50,000,000.00		
Grand total cash assets in Treasury	2,011,893,499.00		2,011,893,499.00

[1] This includes $48,118,368.02 which the Treasury has redeemed and for which it will receive payment from national banks.

[2] The act of July 14, 1890, provides that deposits made by national banks to redeem circulating notes shall be covered into the Treasury as miscellaneous receipts and that the Treasury shall redeem from the general cash the circulating notes which come into its possession subject to redemption.

[3] Reserved against $346,681,016 of United States notes and $2,614,000 of Treasury notes of 1890.

Classification of cash in banks June 14, 1912.

Classification.	7,372 national banks.	17,823 State, etc., banks.	26,195 reporting banks.
Gold coin	$149,294,417.78	$89,094,968.96	$238,389,386.74
Gold certificates	356,602,380.00	206,465,718.00	563,068,098.00
Gold clearing-house certificates	80,479,000.00		80,479,000.00
Silver dollars	12,637,221.00	10,320,174.00	22,957,395.00
Silver certificates	138,569,628.00	55,804,541.00	194,374,169.00
Subsidiary and minor coin	22,555,602.68	15,182,315.61	37,738,008.29
Legal-tender notes	188,440,207.00	64,681,846.00	253,122,053.00
National-bank notes	47,564,277.00	60,717,410.00	108,281,687.00
Cash not classified		74,543,684.40	74,543,684.40
Total	996,142,823.46	576,810,655.97	1,572,953,479.43

Distribution of money in the United States.

Year ended June 30—	Coin and other money in the United States.	Coin and other money in Treasury as assets.[1]		Coin and other money in reporting banks.[2]		Coin and other money not in Treasury or banks.			In circulation, exclusive of coin and other money in Treasury as assets.	
		Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.	Per capita.	Amount.	Per capita.
	Millions.	*Millions.*		*Millions.*		*Millions.*			*Millions.*	
1892	$1,752.2	$150.9	8.60	$598.4	33.48	$1,014.9	57.92	$15.50	$1,601.3	$24.60
1893	1,738.8	142.1	8.17	515.9	29.66	1,080.8	62.15	16.14	1,596.7	24.06
1894	1,806.5	144.2	7.99	688.9	38.17	972.4	53.84	14.21	1,661.3	24.56
1895	1,819.3	217.4	11.95	631.1	34.96	970.8	53.36	13.89	1,601.9	23.34
1896	1,799.9	268.5	14.91	531.8	29.55	974.6	54.14	13.65	1,806.4	21.44
1897	1,906.7	265.7	13.93	628.2	32.94	1,012.8	53.13	13.87	1,641.0	22.92
1898	2,075.5	235.7	11.37	687.7	33.17	1,150.1	55.46	15.43	1,837.8	28.19
1899	2,190.0	266.0	12.06	723.2	33.02	1,180.8	53.92	15.51	1,904.0	25.62
1900	2,330.7	284.6	12.16	749.9	32.06	1,306.2	55.79	17.11	2,055.1	26.92
1901	2,493.1	307.8	12.39	794.9	32.02	1,390.4	55.59	17.75	2,175.3	27.96
1902	2,561.2	313.9	12.24	837.9	32.69	1,411.4	55.07	17.90	2,249.3	28.43
1903	2,654.7	317.0	11.80	848.0	31.59	1,519.7	56.61	18.88	2,337.7	29.42
1904	2,808.5	294.3	10.14	982.9	35.06	1,536.3	54.80	18.77	2,519.2	30.77
1905	2,893.1	295.2	10.24	987.8	34.27	1,600.1	55.49	19.22	2,587.9	31.08
1906	3,069.9	333.3	10.86	1,010.7	32.92	1,725.9	56.22	20.39	2,736.6	32.32
1907	3,115.6	342.6	11.00	1,106.5	35.51	1,666.5	53.49	19.36	2,773.0	32.22
1908	3,378.8	340.8	10.08	1,362.9	40.34	1,675.1	49.58	19.15	3,038.0	34.72
1909	3,406.3	300.1	8.81	1,444.3	42.40	1,661.9	48.78	18.68	3,106.2	34.98
1910	3,419.5	317.2	9.27	1,414.6	41.37	1,687.7	49.36	18.68	3,102.3	34.33
1911	3,555.9	341.9	9.61	1,545.5	43.46	1,668.5	46.93	17.75	3,214.0	34.20
1912	3,648.8	364.3	9.98	1,563.8	42.86	1,720.7	47.16	17.98	3,284.5	34.34

[1] Public money in national-bank depositaries to the credit of the Treasurer of the United States not included.

[2] Money in banks of island possessions not included.

Savings banks, including postal savings banks: Number of depositors, amount of deposits, average deposits per deposit account and per inhabitant, by specified countries.

[Compiled by the Bureau of Foreign and Domestic Commerce, Department of Commerce and Labor, from the official reports of the respective countries.]

Countries.	Population.[1]	Date of report.	Form of organization.	Number of depositors.	Deposits.	Average deposit account.	Average deposit per inhabitant.
Austria	28,572,000	Dec. 31,1909	Communal and private savings banks	4,119,295	$1,161,149,241	$281.88	$40.64
		Dec. 31,1910	Postal savings banks, savings department	2,205,703	46,623,889	21.14	1.63
		do	Postal savings banks, check department	102,574	79,682,452	776.83	2.79
Belgium	7,501,000	Dec. 31,1911	Government savings banks	2,901,753	194,534,158	67.04	25.93
		Dec. 31,1910	Communal and private savings banks	46,997	11,679,721	248.52	1.56
Bulgaria	4,285,000	do	Postal savings banks	280,775	9,129,423	32.5[2]	2.13
Chile	3,415,000	June 30,1910	Caja de ahorros	268,731	10,543,275	39.23	3.09
Denmark	2,757,000	Mar. 31,1910	Communal and corporate savings banks	1,166,607	174,182,302	149.28	63.18
Egypt	11,626,000	Dec. 31,1910	Government savings banks	104,095	2,255,664	21.67	.19
France	39,602,000	Dec. 31,1911	Private savings banks	8,411,791	754,255,333	89.67	19.05
		Dec. 31,1910	Postal savings banks	5,786,035	329,974,970	57.03	8.33
Algeria	5,232,00[0]	Dec. 31,1908	Municipal savings banks	19,301	934,380	48.41	.18
Tunis	1,923,000	Dec. 31,1910	Postal savings banks	5,701	1,288,268	225.97	.67
Germany	64,432,000	do	Public and corporate savings banks	21,534,034	3,993,775,184	185.46	61.98
Luxemburg	246,000	do	State savings bank	69,202	11,863,592	171.43	48.23
Hungary [4]	20,886,000	do	Postal savings banks, savings department	775,970	21,894,118	28.22	1.05
		do	Postal savings banks, check department	20,716	20,075,888	969.10	.96
Italy	34,687,000	June 30,1911	Communal and corporate savings banks	2,294,053	472,879,910	206.13	13.63
		June 30,1910	Postal savings banks	5,160,008	324,279,617	62.84	9.35
Japan	51,547,000	Dec. 31,1910	Private savings banks	7,500,470	72,108,574	9.75	1.42
		Mar. 31,1912	Postal savings banks	11,960,138	91,896,942	7.69	1.78
Formosa	3,341,000	Dec. 31,1910	Private savings banks	6,779	121,227	17.90	.04
		Mar. 31,1911	Postal savings banks	100,819	955,592	9.48	.28
China and Korea		do	do	207,195	3,068,571	14.95	
Netherlands	5,945,000	Dec. 31,1909	Private savings banks	333,209	41,718,495	96.30	7.02
		Dec. 31,1910	Postal savings banks	1,810,033	66,039,592	43.72	11.11
Dutch East Indies	37,717,000	do	Private savings banks	13,228	2,987,566	218.29	.08
		Dec. 31,1911	Postal savings banks	91,898	3,656,685	39.36	.10
Dutch Guiana	86,000	Dec. 31,1910	do	9,478	337,925	35.65	3.98
Norway	2,393,000	do	Communal and private savings banks	1,001,310	135,886,457	135.71	56.78
Roumania [5]	6,866,000	July 1,1910	Government savings banks	218,600	11,616,820	53.12	1.69
Russia [6]	163,779,000	June 30,1912	State, including postal savings banks	8,189,734	784,117,885	95.74	4.79
Finland	3,120,000	Dec. 31,1910	Private savings banks	291,603	44,068,779	151.13	14.12
		do	Postal savings banks	59,723	1,398,856	23.39	.45
Spain [7]	19,588,000	Dec. 31,1910	Private savings banks	495,772	46,931,094	94.66	2.40
Sweden	5,522,000	Dec. 31,1910	Communal and trustees savings banks	1,560,317	216,755,336	138.92	39.25
		Dec. 31,1911	Postal savings banks	565,759	12,645,967	22.35	2.29
Switzerland	3,647,000	Dec. 31,1908	Communal and private savings banks	1,899,332	303,198,216	159.63	83.14

United Kingdom [1]	45,289,000	Nov. 20, 1911	Trustee savings banks	1,849,043	258,083,128	139.58	5.70
		Dec. 31, 1911	Postal savings banks	12,370,646	859,027,319	69.44	18.97
British India [1]	244,127,000	Mar. 31, 1910	....do	1,375,916	51,478,416	37.33	.81
Australia, Commonwealth	4,425,000	1910-11	Government, trustee, and joint-stock savings banks	1,600,112	289,630,353	180.64	65.32
New Zealand	1,008,000	Dec. 31, 1910	Postal savings banks	380,714	68,641,934	180.30	68.10
		....do	Private savings banks	51,508	7,375,302	143.19	7.32
Canada [2]	7,205,000	June 30, 1912	Postal savings banks	146,310	42,683,232	291.73	5.92
		....do	Dominion Government savings banks	35,031	14,171,966	404.55	1.97
British South Africa	6,745,000	1909-10	Government, post-office, and private savings banks	222,772	25,103,836	112.69	3.72
British West Indies	1,679,000	1909-10	Government and post-office savings banks	91,881	6,801,465	58.58	3.75
British colonies, n. e. s.	20,427,000	1909-10	....do	219,967	12,921,863	58.74	.63
Total, foreign countries	359,520,000			109,725,758	11,096,223,947	101.13	12.91
United States	95,411,000	Nov. 30, 1912	Postal savings banks [11]	300,000	28,000,000	93.33	
		June 14, 1912	Mutual and stock savings banks	10,010,304	4,451,818,523	444.72	46.66
Philippine Islands	8,460,000	June 30, 1912	Postal savings banks	35,802	1,177,435	32.89	.14

[1] The figures of population are for the nearest date to which the statistics of savings banks relate.

[2] Exclusive of 1,809 depositors in savings banks in Faroe Islands, and of data for savings departments of ordinary banks, which comprised 155,160 accounts, credited with $31,876,768 on Mar. 31, 1910.

[3] Exclusive of Brunswick.

[4] No separate data available for private and communal savings banks in 1910. The ordinary banks savings banks, and land-credit banks of Hungary held 1,768,455 savings accounts credited with $699,288,107 on Dec. 31, 1910.

[5] Figures for the Casa d'Economie.

[6] Including 38,958 depositors in school savings depositories, credited with $105,060. The above total is exclusive of $163,185,345 worth of securities held by the savings banks to the credit of depositors.

[7] The peseta has been converted at the rate of 18 cents. Data taken from "España Económica y Financiera," Oct. 21, 1911. Exclusive of data for savings departments of commercial banks, which comprised 194,657 accounts credited with $28,588,964 on Dec. 31, 1910.

[8] Exclusive of Government stock held for depositors, which, at the end of the year, amounted to $120,776,096 in the postal savings banks and to $12,934,743 in the trustee savings banks.

[9] Exclusive of the population of the feudatory States.

[10] Exclusive of data for special private savings banks, which on June 30, 1912, held deposits amounting to $40,828,420. The above total does not include the savings deposits in chartered banks ("Deposits payable after notice or on a fixed day"), which on June 30, 1913, amounted to $631,317,587.

[11] Number of offices, 12,822.

TABLE No. 59.—*Abstract of reports of earnings and dividends of*

[Figures in boldface type indicate loss.]

	Location.	Number of banks.	Capital stock.	Surplus.	Capital and surplus.	Gross earnings.
1	Maine	70	$7,850,000.00	$3,579,250.00	$11,429,250.00	$2,752,144.72
2	New Hampshire	56	5,235,000.00	3,083,800.00	8,318,800.00	1,728,723.49
3	Vermont	50	5,160,000.00	2,022,481.21	7,182,481.21	1,478,754.42
4	Massachusetts	167	30,317,500.00	17,490,750.00	47,808,250.00	9,194,782.64
5	Boston	20	24,950,000.00	20,630,500.00	45,580,500.00	12,140,184.26
6	Rhode Island	22	6,775,250.00	4,241,500.00	11,016,750.00	1,806,571.20
7	Connecticut	79	19,364,200.00	11,449,300.00	30,813,500.00	4,940,052.42
	New England States	464	99,651,950.00	62,497,581.21	162,149,531.21	34,043,213.15
8	New York	416	46,785,100.00	32,138,689.67	78,923,789.67	21,345,497.95
9	Albany	3	2,100,000.00	2,200,000.00	4,300,000.00	1,811,075.13
10	Brooklyn	6	2,252,000.00	2,650,000.00	4,902,000.00	1,200,503.21
11	New York City	39	121,500,000.00	127,891,150.00	249,391,150.00	61,172,456.75
12	New Jersey	195	21,737,000.00	21,996,140.00	43,733,140.00	11,458,092.40
13	Pennsylvania	772	67,074,390.00	70,224,490.98	137,298,880.98	28,539,468.04
14	Philadelphia	32	22,055,000.00	43,350,000.00	65,405,000.00	12,862,741.49
15	Pittsburgh	24	28,700,000.00	25,217,500.00	53,917,500.00	13,300,141.60
16	Delaware	28	2,423,975.00	2,282,800.00	4,706,575.00	762,350.61
17	Maryland	90	5,292,000.00	3,741,622.96	9,033,622.96	2,265,866.34
18	Baltimore	17	12,290,710.00	7,720,010.00	20,010,720.00	3,832,198.30
19	District of Columbia	1	252,000.00	252,000.00	504,000.00	72,643.21
20	Washington	10	5,850,000.00	4,640,512.79	10,490,512.79	1,785,616.53
	Eastern States	1,633	338,312,175.00	344,304,716.40	682,616,891.40	180,428,741.86
21	Virginia	129	17,308,500.00	11,547,684.00	28,856,184.00	6,754,485.97
22	West Virginia	108	9,587,000.00	5,650,189.76	15,237,189.76	3,539,333.67
23	North Carolina	73	8,585,000.00	2,649,273.00	11,234,273.00	2,604,031.84
24	South Carolina	43	5,460,000.00	1,934,250.00	7,394,250.00	2,291,668.38
25	Georgia	112	14,059,500.00	8,183,230.00	22,242,730.00	5,371,016.44
26	Savannah	2	900,000.00	700,000.00	1,600,000.00	408,009.84
27	Florida	45	6,080,000.00	2,707,700.00	8,787,700.00	2,922,701.82
28	Alabama	84	9,675,000.00	5,233,025.00	14,908,025.00	3,509,560.39
29	Mississippi	31	3,255,000.00	1,582,329.74	4,837,329.74	1,323,412.72
30	Louisiana	28	3,145,000.00	2,245,865.83	5,390,865.83	1,542,600.94
31	New Orleans	5	5,200,000.00	2,980,000.00	8,180,000.00	2,124,478.19
32	Texas	479	32,166,000.00	16,817,846.02	48,983,846.02	12,906,934.67
33	Dallas	4	2,650,000.00	2,350,000.00	5,000,000.00	1,570,189.61
34	Fort Worth	8	2,875,000.00	1,915,000.00	4,790,000.00	1,266,294.68
35	Galveston	2	500,000.00	250,000.00	750,000.00	261,617.75
36	Houston	5	4,600,000.00	1,190,000.00	5,790,000.00	1,873,676.04
37	San Antonio	6	2,100,000.00	1,080,000.00	3,180,000.00	822,617.87
38	Waco	6	1,450,000.00	308,300.00	1,758,300.00	518,029.28
39	Arkansas	48	4,960,000.00	1,776,020.00	6,736,020.00	1,830,428.83
40	Kentucky	136	12,045,900.00	4,793,067.22	16,838,967.22	3,234,884.28
41	Louisville	8	5,495,000.00	2,645,000.00	8,140,000.00	1,702,484.06
42	Tennessee	100	12,460,000.00	5,294,961.26	17,754,961.26	4,665,333.59
	Southern States	1,462	164,556,900.00	83,833,711.83	248,390,611.83	63,135,395.26
43	Ohio	355	34,307,100.00	17,942,942.57	52,250,042.57	13,385,163.72
44	Cincinnati	8	13,900,000.00	6,300,000.00	20,200,000.00	3,926,987.25
45	Cleveland	7	9,350,000.00	4,050,000.00	13,400,000.00	3,611,365.32
46	Columbus	8	3,000,000.00	1,570,500.00	4,570,500.00	1,540,211.82
47	Indiana	250	21,133,000.00	9,305,180.54	30,438,180.54	7,980,472.97
48	Indianapolis	5	5,400,000.00	2,745,000.00	8,145,000.00	2,365,241.24
49	Illinois	432	31,233,000.00	17,450,455.84	48,683,455.84	13,238,909.21
50	Chicago	10	43,600,000.00	26,100,000.00	69,700,000.00	18,863,274.36
51	Michigan	96	10,260,000.00	5,342,300.00	15,602,300.00	5,140,853.05
52	Detroit	3	4,750,000.00	1,750,000.00	6,500,000.00	2,350,325.89
53	Wisconsin	122	11,180,000.00	4,693,400.00	15,773,400.00	5,319,816.93
54	Milwaukee	6	6,250,000.00	2,760,000.00	9,010,000.00	2,960,264.61
55	Minnesota	280	11,811,000.00	6,277,008.57	18,088,008.57	7,452,013.47
56	Minneapolis	5	6,800,000.00	5,980,000.00	12,880,000.00	3,205,701.77
57	St. Paul	6	4,100,000.00	3,450,574.34	7,550,574.34	2,140,206.80
58	Iowa	314	17,715,000.00	7,326,710.75	24,952,710.75	8,299,282.14
59	Cedar Rapids	3	400,000.00	308,000.00	708,000.00	510,754.01
60	Des Moines	4	2,000,000.00	600,000.00	2,600,000.00	932,881.78
61	Dubuque	3	600,000.00	130,000.00	730,600.00	207,752.47
62	Sioux City	5	950,000.00	400,000.00	1,350,000.00	604,340.30

national banks in the United States for year ended July 1, 1912.

[Figures in boldface type indicate loss.]

Charged off.		Net earnings.	Dividends.	Ratios.			
Losses and premiums.	Expenses and taxes.			Net earnings to capital and surplus.	Dividends to capital and surplus.	Dividends to capital.	
				Per cent.	*Per cent.*	*Per cent.*	
$281,220.42	$1,660,545.53	$810,378.77	$598,412.50	7.09	5.24	7.62	1
276,888.28	713,958.28	737,876.92	497,316.68	8.37	5.98	9.50	2
88,898.39	823,532.41	561,323.62	436,363.00	7.82	6.08	8.46	3
781,424.32	5,134,246.28	3,279,111.54	2,288,353.00	6.86	4.79	7.55	4
1,008,905.52	5,021,795.90	3,111,482.84	2,127,000.00	6.83	4.67	8.59	5
106,804.29	981,480.23	721,196.68	492,115.00	6.55	4.47	7.26	6
441,068.39	2,345,383.47	2,153,600.62	1,540,283.00	6.99	5.00	7.95	7
2,982,300.06	19,685,942.10	11,374,970.99	7,979,843.18	7.02	4.92	8.01	
1,858,041.83	12,463,219.69	7,024,236.43	4,493,596.50	8.90	5.69	9.60	8
115,073.97	1,306,983.80	398,047.36	283,061.00	9.05	6.58	13.48	9
131,915.16	740,511.94	328,976.11	220,400.00	6.69	4.70	10.22	10
3,898,293.25	33,639,088.98	23,535,080.52	25,902,500.00	9.48	10.39	21.32	11
852,480.87	6,389,558.03	4,216,953.50	2,744,535.00	9.64	6.28	12.63	12
2,830,911.57	15,770,059.47	9,938,497.00	5,921,023.60	7.24	4.31	8.83	13
747,236.31	5,177,177.40	3,938,327.78	2,572,500.00	6.02	3.93	11.66	14
2,353,452.01	7,662,420.49	3,284,269.10	2,724,060.00	6.09	5.05	9.49	15
51,954.15	393,343.44	317,053.02	214,221.58	6.74	4.55	8.84	16
104,268.48	1,435,371.19	746,316.67	473,285.00	8.26	5.24	8.94	17
587,171.53	2,098,099.54	1,146,927.23	1,126,654.50	5.73	5.63	9.17	18
692.25	37,073.42	34,877.54	30,240.00	6.92	6.00	12.00	19
92,342.06	844,852.41	848,422.36	636,000.00	8.09	6.06	10.87	20
13,623,338.44	90,957,729.80	58,847,173.62	47,352,319.18	8.18	6.94	14.00	
366,650.05	3,975,828.78	2,412,007.14	1,512,300.00	8.36	5.24	8.74	21
330,681.13	1,999,291.62	1,209,365.32	920,019.14	7.94	6.04	9.60	22
80,608.37	1,421,848.40	1,101,575.07	679,550.00	9.81	6.05	7.92	23
165,702.58	1,383,995.37	741,970.43	501,538.00	10.03	6.73	9.19	24
341,584.31	2,786,709.46	2,242,722.67	1,725,650.00	10.08	7.76	12.27	25
78,071.77	95,213.90	234,794.17	57,500.00	14.67	3.59	6.39	26
222,446.54	1,667,589.98	1,032,665.30	495,050.00	11.75	.63	8.14	27
320,035.12	1,814,863.04	1,374,662.23	971,225.00	9.22	6.51	10.04	28
131,441.92	770,131.38	421,839.42	292,100.00	8.72	6.04	8.97	29
136,981.95	916,014.51	489,604.48	450,400.00	9.08	8.35	14.32	30
209,361.61	1,289,338.59	625,777.99	541,000.00	7.65	6.61	10.40	31
1,240,979.92	6,224,527.77	5,441,426.98	4,096,523.94	11.11	8.36	12.73	32
147,898.67	721,261.39	701,029.55	448,000.00	14.02	8.96	16.91	33
97,065.79	680,892.24	488,336.65	271,000.00	10.19	5.66	9.43	34
27,510.80	166,436.13	67,670.82	36,000.00	9.02	4.80	7.20	35
191,887.12	987,498.20	804,290.72	667,000.00	11.99	11.53	14.80	36
14,030.06	380,133.15	428,454.67	279,000.00	13.47	8.77	12.29	37
51,725.52	302,485.29	164,418.48	359,000.00	9.35	20.42	24.76	38
114,960.03	1,013,674.72	701,764.08	497,350.00	10.42	7.38	10.03	39
397,524.51	1,674,349.56	1,163,010.21	943,543.00	6.91	5.60	7.82	40
154,850.80	1,024,416.66	614,216.60	416,100.00	7.55	5.11	7.57	41
471,918.24	2,643,932.54	1,549,482.81	1,278,200.00	8.73	7.02	10.26	42
5,293,946.80	33,940,432.67	23,901,015.79	17,437,139.08	9.62	7.02	10.60	
1,405,784.08	7,820,440.63	4,158,999.01	2,528,327.67	7.96	5.41	8.24	43
2,547,714.73	2,011,509.84	632,237.32	1,370,000.00	3.13	6.78	9.86	44
363,523.60	2,334,291.60	913,550.12	803,000.00	6.82	5.99	8.59	45
118,779.36	916,587.66	504,844.80	304,500.00	11.05	6.66	10.15	46
555,682.22	4,798,906.11	2,634,884.64	1,875,433.66	8.66	6.16	8.87	47
529,369.63	1,277,768.45	558,103.16	380,000.00	6.85	4.67	7.04	48
1,015,964.64	7,598,102.75	4,624,841.82	3,518,100.00	9.50	7.23	11.26	49
1,645,344.54	11,403,149.97	5,814,879.85	6,226,000.00	8.34	8.93	14.28	50
315,809.51	3,304,144.57	1,520,598.97	959,731.96	9.75	6.15	9.35	51
271,364.38	1,520,508.22	558,463.29	400,000.00	8.59	6.15	8.42	52
365,420.24	3,555,703.36	1,398,693.32	1,285,450.00	8.87	8.15	11.50	53
191,203.71	1,953,252.76	845,908.14	586,250.00	9.39	6.51	9.38	54
361,591.00	4,765,881.61	2,324,540.86	1,658,349.08	12.85	9.17	14.04	55
99,823.15	2,101,640.42	1,107,238.20	708,000.00	8.75	5.59	10.41	56
289,559.98	1,134,375.03	716,570.79	440,200.00	9.49	5.83	10.74	57
588,454.96	5,026,149.07	2,678,659.11	2,044,807.81	10.73	8.19	11.54	58
36,387.86	361,887.71	112,479.44	61,000.00	15.89	8.62	15.25	59
95,892.93	551,655.93	285,032.92	154,000.00	10.96	5.92	7.70	60
5,350.40	131,974.99	70,457.08	50,000.00	9.65	6.85	8.33	61
43,948.34	429,770.89	132,621.07	96,000.00	9.23	6.37	9.05	62

TABLE No. 59.—*Abstract of reports of earnings and dividends of*

[Figures in boldface type indicate loss.]

	Location.	Number of banks.	Capital stock.	Surplus.	Capital and surplus.	Gross earnings.
63	Missouri	110	$6,665,000.00	$2,666,916.62	$9,331,916.62	$2,352,005.94
64	Kansas City	12	7,850,000.00	3,382,000.00	11,232,000.00	4,884,019.24
65	St. Joseph	4	1,100,000.00	675,000.00	1,775,000.00	711,820.21
66	St. Louis	8	20,460,000.00	11,960,000.00	32,360,000.00	7,816,242.98
	Middle Western States	2,036	274,756,100.00	142,887,984.53	417,644,084.53	119,997,918.43
67	North Dakota	146	5,265,000.00	1,878,669.33	7,145,669.33	3,150,624.82
68	South Dakota	102	4,180,000.00	1,238,450.00	5,418,450.00	2,650,933.75
69	Nebraska	231	10,415,000.00	4,261,368.00	14,676,368.00	4,766,358.98
70	Lincoln	4	1,000,000.00	330,000.00	1,330,000.00	498,144.73
71	Omaha	7	3,700,000.00	2,810,000.00	6,510,000.00	2,515,282.42
72	South Omaha	3	1,100,000.00	380,000.00	1,480,000.00	548,382.27
73	Kansas	202	10,662,500.00	4,619,985.00	15,282,485.00	4,792,684.67
74	Kansas City	2	500,000.00	309,000.00	809,000.00	342,278.45
75	Topeka	2	300,000.00	160,000.00	460,000.00	190,871.94
76	Wichita	3	500,000.00	505,000.00	1,005,000.00	453,024.93
77	Montana	58	4,960,000.00	2,774,250.00	7,734,250.00	3,176,080.31
78	Wyoming	29	1,725,000.00	1,066,500.00	2,791,500.00	1,192,234.78
79	Colorado	118	6,690,000.00	3,079,390.74	9,769,390.74	3,350,315.87
80	Denver	6	3,800,000.00	3,909,000.00	7,603,000.00	2,961,449.27
81	Pueblo	3	650,000.00	450,000.00	1,100,000.00	463,135.21
82	New Mexico	39	2,090,000.00	989,350.00	3,079,350.00	1,216,074.79
83	Oklahoma	272	10,543,000.00	2,818,243.21	13,361,243.21	5,566,733.22
84	Muskogee	5	850,000.00	250,500.00	1,100,500.00	468,249.93
85	Oklahoma City	6	1,550,000.00	270,000.00	1,820,000.00	765,707.67
	Western States	1,238	70,295,500.00	32,084,605.28	102,380,108.28	39,069,043.01
86	Washington	66	4,075,000.00	1,985,915.99	6,060,915.99	2,310,296.02
87	Seattle	6	4,200,000.00	1,370,000.00	5,570,000.00	2,283,475.87
88	Spokane	5	3,400,000.00	765,000.00	4,165,000.00	1,427,005.47
89	Tacoma	2	500,000.00	850,000.00	1,350,000.00	449,184.35
90	Oregon	76	4,611,600.00	2,093,187.14	6,704,187.14	2,092,837.50
91	Portland	4	4,000,000.00	1,827,000.00	5,827,000.00	1,879,845.83
92	California	197	18,872,800.00	7,931,647.55	26,804,447.55	7,891,103.62
93	Los Angeles	9	6,100,000.00	2,826,000.00	8,926,000.00	2,987,884.93
94	San Francisco	9	28,250,000.00	14,805,000.00	43,055,000.00	7,308,656.18
95	Idaho	48	2,940,000.00	1,392,240.90	4,332,240.90	1,580,550.84
96	Utah	17	1,155,000.00	440,186.45	1,595,186.45	790,102.58
97	Salt Lake City	5	2,150,000.00	965,000.00	3,115,000.00	899,180.80
98	Nevada	11	1,742,000.00	474,000.00	2,216,000.00	509,941.39
99	Arizona	13	1,105,000.00	725,000.00	1,830,000.00	668,753.58
100	Alaska	2	100,000.00	53,500.00	153,500.00	137,998.81
	Pacific States	470	83,200,800.00	38,503,678.03	121,704,478.03	33,277,461.77
101	Hawaii	4	610,000.00	254,426.42	864,426.42	151,476.62
	United States	7,307	[1]1,031,383,425.00	[1]704,346,706.70	1,735,730,131.70	450,043,250.09

[1] Capital and surplus as shown at the close of the year.

national banks in the United States for year ended July 1, 1912—Continued.

[Figures in boldface type indicate loss.]

Charged off.		Net earnings.	Dividends.	Ratios.			
Losses and premiums.	Expenses and taxes.			Net earnings to capital and surplus.	Dividends to capital and surplus.	Dividends to capital.	
				Per cent.	*Per cent.*	*Per cent.*	
$135,902.87	$1,340,457.09	$856,645.98	$682,625.00	9.17	7.31	10.24	63
410,245.90	3,274,933.67	1,198,539.67	625,000.00	10.67	5.56	7.96	64
61,330.60	507,648.39	142,841.22	96,500.00	8.05	5.44	8.77	65
870,386.91	5,270,111.58	1,675,744.44	2,259,000.00	5.17	6.97	11.07	66
12,344,925.54	73,390,852.30	34,202,140.58	29,402,275.18	8.19	7.04	10.70	
235,087.22	2,052,282.49	893,255.11	690,789.21	12.36	9.67	13.11	67
127,140.70	1,802,296.89	721,502.16	512,700.41	13.33	9.46	12.27	68
343,417.89	2,690,443.13	1,732,498.36	1,424,572.97	11.80	9.71	13.68	69
22,695.33	318,057.44	157,901.96	79,000.00	11.83	5.94	7.90	70
272,052.11	1,508,550.79	734,679.52	348,000.00	11.29	5.35	9.41	71
38,742.50	358,194.94	151,914.83	90,000.00	10.26	6.08	9.13	72
425,894.15	2,682,109.46	1,684,681.06	1,301,567.65	11.02	8.52	12.21	73
94,851.56	243,876.62	73,949.96	36,000.00	9.19	4.50	7.30	74
15,999.32	130,818.12	44,084.50	34,000.00	9.58	7.39	11.33	75
27,292.90	315,383.53	116,349.20	57,000.00	10.98	5.47	11.40	76
567,035.43	1,903,665.95	1,065,378.94	909,900.00	13.77	11.76	16.34	77
56,212.19	685,810.36	450,212.23	290,250.00	16.13	10.40	16.73	78
505,514.43	1,872,416.74	972,384.70	769,950.00	9.95	7.88	11.81	79
398,887.29	1,707,269.54	966,292.44	472,750.00	11.47	5.30	13.13	80
402,244.84	239,733.46	121,186.91	73,000.00	11.01	6.64	11.28	81
128,099.17	694,943.85	393,091.77	372,500.00	12.80	12.13	17.82	82
657,081.13	3,085,557.75	1,834,094.34	1,644,713.32	13.65	12.21	15.60	83
53,200.80	262,328.01	152,721.12	115,250.00	13.88	10.47	13.56	84
178,938.14	484,616.11	102,153.42	108,000.00	5.61	5.93	6.97	85
4,115,386.79	22,718,353.79	12,235,302.43	9,329,943.56	11.95	9.11	13.27	
398,499.85	1,319,033.04	592,762.13	618,575.00	9.78	10.21	15.18	86
266,136.02	1,375,774.73	621,565.12	580,000.00	11.16	10.57	14.02	87
178,767.29	874,547.24	374,290.94	350,000.00	8.99	8.55	10.47	88
87,264.09	265,822.01	96,098.25	94,000.00	7.12	6.96	18.80	89
228,490.56	1,041,513.15	822,533.79	638,936.19	12.27	9.52	13.96	90
317,441.19	949,909.26	612,495.38	448,158.20	10.51	7.69	11.20	91
684,537.27	4,264,739.74	2,941,526.61	1,709,480.00	10.98	6.60	9.38	92
342,330.68	1,529,056.66	1,116,477.59	908,250.00	12.51	10.18	14.89	93
644,953.44	3,717,668.94	2,946,033.80	2,265,000.00	6.84	5.26	8.02	94
203,558.89	915,528.57	461,163.38	375,100.00	10.64	8.66	12.76	95
50,895.88	361,120.91	378,145.79	240,322.65	23.71	15.07	20.81	96
160,822.70	626,917.77	111,440.33	166,000.00	3.58	5.33	7.72	97
128,486.44	289,174.49	152,280.46	159,020.00	6.87	7.18	9.13	98
104,815.22	347,532.61	216,410.75	127,000.00	11.83	6.94	11.49	99
95,587.46	91,541.33	29,139.98	.....	18.98	.....	.....	100
3,892,586.98	17,970,180.45	11,414,694.34	8,754,352.04	9.38	7.19	10.32	
3,145.54	67,025.60	81,305.48	44,500.00	9.41	5.15	7.30	101
42,256,130.15	258,730,516.71	149,056,603.23	120,300,872.22	8.59	6.93	11.66	

Monetary systems and approximate stocks of money, in the aggregate and

	Countries.	Monetary standard.	Monetary unit.	Population.	Stock of gold.		
					In banks and public treasuries.	In circulation.	Total.
				Thousands.	*Thousands.*	*Thousands.*	*Thousands.*
1	United States	Gold	Dollar	94,800	1,429,800	369,800	1,799,600
2	Austria-Hungary	do	Crown	49,400	265,700	90,600	356,300
3	Belgium	do	Franc	7,300	36,500		
4	British Empire:						
5	Australia	do	Pound sterling	4,400	207,800	14,600	222,400
6	Canada	do	Dollar	6,200	138,200		
7	United Kingdom.	do	Pound sterling	45,000	[1] 375,000	335,800	[1] 710,800
8	India	do	Pound sterling and rupee.	295,000	[2] 44,600		
9	South Africa	do	Pound sterling	7,800	80,400	15,000	65,400
10	Straits Settlements.[3]	do	Dollar	1,600	6,800		
11	Bulgaria	do	Lev	4,000	7,700		
12	Cuba	do	Peseta	2,100			42,000
13	Denmark	do	Crown	2,700	19,800	18,500	38,300
14	Egypt	do	Piaster	11,300	8,200	174,500	[4] 182,700
15	Finland	do	Markka	2,900	6,900	3,700	10,600
16	France	do	Franc	39,300	635,000	565,000	[5] 1,200,000
17	Germany	do	Mark	64,900	[6] 205,700		
18	Greece	do	Drachma	2,600	2,500	1,900	4,400
19	Haiti	do	Gourde	1,500	1,300	2,100	3,400
20	Italy	do	Lira	33,900	288,500		
21	Japan	do	Yen	52,200	117,000	16,900	133,900
22	Mexico	do	Peso	15,000	31,200		
23	Netherlands	do	Florin	5,900	56,400	19,200	75,600
24	Norway	do	Crown	2,400	16,200	4,600	20,800
25	Portugal	do	Milreis	5,400	6,500	8,000	14,500
26	Roumania	do	Lei	6,800	30,600	2,100	32,700
27	Russia	do	Ruble	160,100	611,700	334,600	946,300
28	Servia	do	Dinar	2,800	6,500		
29	Siam	do	Tical	7,000	100		
30	South American States:						
31	Argentina	do	Peso	7,000	248,300		
32	Bolivia	do	Boliviano	2,300	7,900		
33	Brazil	do	Milreis	20,500	116,500		
34	Chile	do	Peso	3,500	500		
35	Colombia	do	Dollar	4,300			
36	Ecuador	do	Sucre	1,500	3,300	2,100	5,400
37	Guiana—						
38	British	do	Pound sterling	300	100		
39	Dutch	do	Florin	100	200		
40	French	do	Franc	100	100		
41	Paraguay	do	Peso	800	15,200		
42	Peru	do	Sol	4,500	8,300	3,900	12,200
43	Uruguay	do	Peso	1,100	15,200		
44	Venezuela	do	Bolivar	2,600	600	2,500	3,100
45	Spain	do	Peseta	19,700	74,900	138,200	213,100
46	Sweden	do	Crown	5,400	22,800	3,200	26,000
47	Switzerland	do	Franc	3,300	31,000	34,700	65,700
48	Turkey	do	Piaster	24,000	14,900	127,500	142,400
49	Central American States.	Silver[9]	Peso	5,300	1,300	100	1,400
	Total			1,940,600	5,167,600		

NOTE.—The blank spaces in this table signify that no satisfactory information is available.

[1] Estimates for the United Kingdom prior to that for 1910 were for coin only; these figures include $100,000,000 for bullion in the Bank of England; also $12,200,000 gold belonging to Indian gold-standard reserve.

[2] This is the amount in the currency reserves. Fred. J. Atkinson, accountant general of India, in 1908, estimated the active rupee circulation at 2,040,000,000 rupees; small silver coin at 140,000,000 rupees.

[3] Includes Straits Settlements, the Malay States, and Johore.

[4] This estimate is based upon a calculation made by Messrs. P. Arminjon and B. Michel in 1908, who estimated the stock of gold in the country at from 33,000,000 to 41,000,000 Egyptian pounds. The mean of these figures was adopted in this table last year. Since their estimate was made the net imports of gold into Egypt to Dec. 31, 1911, have amounted to $23,919,061, but as there is said to be a considerable absorption of gold for ornaments, no change in the estimate of the monetary stock has been made.

per capita, in the principal countries of the world, Dec. 31, 1911.

Stock of silver.			Uncovered paper	Per capita.				
Full tender.	Limited tender.	Total.		Gold.	Silver.	Paper.	Total.	
Thousands.	*Thousands.*	*Thousands.*	*Thousands.*					
568,300	167,600	735,900	704,500	$18.98	$7.76	$8.07	$34.81	1
Nil.	122,900	122,900	197,600	7.21	2.49	4.00	13.70	2
8,700	2,400	11,100	139,000	5.00	1.52	19.04	25.56	3
								4
Nil.	10,000	10,000	.....	50.54	2.27	.....	52.81	5
Nil.	7,700	7,700	79,100	22.29	1.24	12.76	36.29	6
Nil.	116,800	116,800	115,200	15.80	2.59	2.56	20.95	7
97,400	45,000	142,400	45,400	.14	.48	.16	.78	8
Nil.	20,000	20,000	.....	8.38	2.56	.....	10.94	9
Nil.	19,000	19,000	7,500	4.25	11.88	4.68	20.81	10
Nil.	4,800	4,800	9,900	1.93	1.20	2.47	5.60	11
Nil.	5,000	5,000	.....	20.00	2.38	.....	22.38	12
Nil.	7,900	7,900	17,300	14.19	2.92	6.41	23.52	13
Nil.	14,300	14,300	6,600	16.17	1.26	.58	18.01	14
Nil.	500	500	14,900	3.66	.17	5.13	8.96	15
347,400	63,700	411,100	245,900	30.53	10.46	6.26	47.25	16
Nil.	253,600	253,600	276,100	3.16	3.90	4.24	11.30	17
Nil.	3,000	3,000	27,600	1.69	1.15	10.62	13.46	18
1,000	1,500	2,500	8,200	2.26	1.67	5.47	9.40	19
22,700	1,400	24,100	182,300	8.51	.71	5.38	14.60	20
Nil.	64,200	64,200	101,700	2.57	1.23	1.95	5.55	21
52,000	4,000	56,000	51,200	2.08	3.73	3.41	9.22	22
Nil.	29,000	29,000	64,700	12.81	4.92	10.97	28.70	23
Nil.	3,700	3,700	8,700	8.67	1.54	3.62	13.83	24
Nil.	33,100	33,100	69,900	2.60	6.13	12.94	21.76	25
Nil.	12,600	12,600	43,200	4.81	1.85	6.35	13.01	26
Nil.	78,800	78,800	.....	5.91	.49	.....	6.40	27
Nil.	1,300	1,300	4,900	2.32	.46	1.75	4.53	28
Nil.	52,200	52,200	2,100	.01	7.46	.30	7.77	29
								30
Nil.	9,400	9,400	[7]692,200	35.47	1.34	98.89	135.70	31
Nil.	700	700	2,000	3.39	.30	.87	4.56	32
Nil.	25,000	25,000	[7]77,900	5.68	1.22	3.80	10.70	33
Nil.	8,500	8,500	19,000	.14	2.43	5.43	8.00	34
Nil.	.....	.....	[8]10,000	.....	.....	2.33	2.33	35
Nil.	1,300	1,300	1,700	3.60	.87	1.13	5.60	36
								37
Nil.	400	400	100	.33	1.34	.33	2.00	38
Nil.	300	300	300	2.00	3.00	3.00	8.00	39
Nil.	100	100	600	1.00	1.00	6.00	8.00	40
Nil.	.....	.....	42,900	19.00	.....	53.63	72.63	41
Nil.	2,400	2,400	.....	2.71	.53	.....	3.24	42
Nil.	4,300	4,300	8,000	13.82	3.90	7.28	25.00	43
Nil.	10,800	10,800	800	1.19	4.15	.31	5.65	44
Nil.	256,800	256,800	76,000	10.82	13.04	3.85	27.71	45
Nil.	8,600	8,600	34,700	4.81	1.59	6.43	12.83	46
Nil.	13,500	13,500	27,900	19.91	4.09	8.45	32.45	47
Nil.	26,400	26,400	.....	5.93	1.10	.....	7.03	48
Nil.	9,200	9,200	89,900	.26	1.74	16.96	18.96	49
1,097,500	1,523,700	2,621,200	3,567,500	.....	.....	.....	.....	

[6] Estimate of A. De Foville, 1909.

[7] German war fund and Imperial Bank of Germany. No definite information as to other holdings. The coinage of gold since the establishment of the Empire less recoinage, amounts to $1 125,023,299 but the exports are unknown, and there has been an industrial consumption.

[8] Gold conversion value.

[9] This amount has been reduced to a gold basis; that is, 100 pesos equal 1 United States gold dollar. Except Costa Rica and British Honduras (gold-standard countries).

BANKING AND CURRENCY CONFERENCE.

[Suggested resolutions prepared at the request of A. B. Hepburn, of New York, chairman currency commission of the American Bankers' Association, by J. B. Forgan, of Chicago, vice chairman; presented at the morning session, Friday, Aug. 22 1913, and ordered read and referred to the conference for discussion.]

Whereas the provisions of the Federal reserve act requiring all member banks, both national and State, to invest 10 per cent of their own capital in the capital stock of the proposed Federal reserve banks and to assume a liability of a further equal amount payable on demand for the purpose when necessary of paying the obligations of such Federal reserve banks, and further requiring that such member banks shall deposit 5 per cent of their own total demand liabilities in said Federal reserve banks; and

Whereas both such capital investment and such deposits are placed entirely beyond the management, control, or use of the depositing banks, except that the deposits may erroneously be counted as part of their lawful money reserve; and

Whereas the banks would prefer to keep their reserves within their own control, so that they could use them in such emergencies as reserves are intended to provide for; and

Whereas we find in the Federal reserve act no compensating benefits to induce the State banking institutions to voluntarily assume these obligations:

Resolved, That it is the opinion of this convention that notwithstanding the fact that the State banking institutions outnumber the national banks by more than two to one and control more than one-half the banking business of the country, they could not be induced to voluntarily comply with the provisions of the Federal reserve act and thus become parties to it; and be it further

Resolved, That if the opinion expressed in the previous resolution is correct the reserve bank organization committee created by the act will have to rely for the organization of the Federal reserve banks entirely on the action of the national banks under the more or less compulsory obligations imposed on them in the act, requiring them within 12 months to contribute the necessary capital and the minimum reserve deposits or accept one of the two alternatives of dissolution or of continuing their business under State charters.

(No. 2.)

Whereas the Federal reserve act stipulates that there shall be not less than 12 Federal reserve banks, with a minimum capital of $5,000,000 each, which calls for a minimum aggregate capital subscription of $60,000,000; and

Whereas it is evident that in the larger districts much more than the minimum capital would be necessary:

Resolved, That it is the opinion of this convention that the 12 Federal reserve banks could not be amply capitalized by a subscription amounting to 10 per cent on the aggregate capital of the existing national banks, which approximates $105,000,000, as the—

Federal Reserve Bank of New York would require not less than	$25,000,000
Federal Reserve Bank of Chicago would require not less than	20,000,000
Federal Reserve Bank of St. Louis would require not less than	15,000,000
Federal Reserve Bank of San Francisco would require not less than	10,000,000
Federal Reserve Bank of New Orleans would require not less than	10,000,000
Federal Reserve Bank of Philadelphia would require not less than	10,000,000
Federal Reserve Bank of Boston would require not less than	10,000,000
And there would have to be five others in different parts of the country at not less than $5,000,000 each, making	25,000,000
	125,000,000

which would thus require $20,000,000 more than would be provided if every national bank should become a subscriber.

(No. 3.)

Whereas, bank reserves against deposit liabilities being held for debt-paying purposes must be in the form of actual money or of obligations promptly convertible into money:

Resolved, That in the opinion of this convention the minimum credit balances which the national or other member banks are required to maintain with the Federal reserve banks, not being subject to withdrawal, are not convertible into money and therefore are not available for the purpose of paying debts; and such balances could

not be regarded by the member banks which own but can not use them as anything but a fixed capital investment similar to their contribution to the capital stock of the Federal reserve banks except that they earn nothing for the investors.

(No. 4.)

Whereas in the opinion of this convention the contraction of loans in the national banks made necessary by the payments in lawful money which they would be required to make to the Federal reserve banks within 60 days would largely exceed the loaning capacity of the Federal reserve banks:

Resolved, That we offer the following explanation of our opinion thus expressed:

The loans and bond investments of the national banks, exclusive of their Government bonds pledged as security for their note circulation, amount in round figures to $7,336,000,000. The aggregate net deposits of the national banks on which their legal reserve is figured amount to $7,124,000,000. (See comptroller's report of June 4, 1913.) Thus the aggregate loans, including bond investments of the national banks, are practically an offset against the amount of their aggregate net deposits. In other words, these two items represent the amount of credits exchanged between the banks and the public, the amount owed by the banks to the public being practically offset by the amount owed by the public to the banks. This exchange of credits is based on and supported by actual money in the banks. The established relation between the amount of actual money held by the banks and the fabric of credits existing between the banks and the public is therefore in the ratio of $917,000,000 to $7,336,000,000, or 12½ per cent of money to the amount of credits.

If from the amount of money on hand		$917,000,000
the national banks are required to make the following payments to the Federal reserve banks, viz:		
10 per cent of their aggregate capital	$105,000,000	
3 per cent of their net deposits	213,000,000	
they would have to turn over more than one-third of their entire holdings, or		318,000,000
and would have left money on hand amounting to		599,000,000
On the established basis of 12½ per cent of money to existing credits, which seems little enough, this would provide for credits between the banks and the public aggregating		4,792,000,000
Calling for a compulsory contraction in such credits of		2,544,000,000
From their present amount of		7,336,000,000
The Federal reserve banks with a capital paid in of		105,000,000
And reserve deposits similarly paid in of		213,000,000
Would have in money to start with		318,000,000
Which on the basis of the 33⅓ per cent cash reserve they are required to carry against their total demand liabilities would enable them to expand until they had assumed total liabilities of		954,000,000
Of which they would have already assumed liability for the reserve deposits		213,000,000
Their net expansion capacity would therefore be		741,000,000
And this would be the limit of their ability to rediscount for their member banks, whose compulsory contraction of credits as shown above would be		2,544,000,000
Showing that their ability to rediscount would fall short of the contraction of credits in their member banks by		1,803,000,000

After 14 months when the minimum reserve deposits required are to be raised from 3 per cent to 5 per cent, this deficiency would of course be greatly increased. Such a contraction of the credits between the national banks and the public could not be accomplished without a cataclysm in business.

In order that these figures should not overstate the effect on the credits between the public and the national banks by such a diversion of money equal to one-third of all the money in the national banks from these banks into the Federal reserve banks,

the 3 per cent reserve deposit required on their "total demand liabilities" has been figured on their net and not on their gross deposits, under the assumption that the same offsets would be allowed them that are now allowed when figuring their legal reserve requirements.

These figures do not include the Government deposits which within 12 months are to be transferred to the Federal reserve banks. With the exception of the free money in the Treasury such deposits would be transferred from the national banks and would require them to part with a further amount of money equal to the amount of the Government deposits they hold, which would still further proportionately decrease their money reserve and increase the compulsory contraction of their loans. These transfers of Government deposits having to be made within 12 months would have no effect on the above transactions, all of which must occur within 60 days.

We do not wish it to be understood that these figures forecast precisely what would occur were the Federal reserve act passed and were the national banks to operate under it. We are well aware that no calculation can possibly be made to correctly forecast what would actually occur in such an event. We are satisfied, however, that the figures portray as accurately as possible the situation which would be confronted were the 12 Federal reserve banks organized and should the national banks undertake to operate under the new law.

The discrepancy between the loaning capacity of the Federal reserve banks and the contraction of credits in the national banks shown in the figures may be further elucidated as follows: It is proposed to transfer bodily from the national banks practically one-third of the actual money now lodged in their vaults and place it in the Federal reserve banks. As we have seen the money in the vaults of the national banks forms the basis of a fabric of credits existing between them and the public in the ratio of 12½ per cent of actual money to the amount of such credits outstanding. This fabric of credits must be adjusted to the reduced holdings of actual money by the banks on the established ratio of 12½ per cent of money to total credits, otherwise to a proportionate extent there will be an overexpansion of credits in the banks. The credit expansion of the Federal reserve banks is fixed on the basis of a 33⅓ per cent money reserve against their total liabilities. They are therefore restricted in their credit expansion to $3 of credit against $1 of money, while the national banks have been doing business on a 12½ per cent money basis, or $8 of credit against $1 of money. As a basis of credit, therefore, the one-third of the money now in the national banks when transferred to the Federal reserve banks would lose nearly two-thirds of its present expansive power.

If the Federal reserve banks could continue to use the money thus transferred to them on the same basis on which the national banks now use it, viz, $8 of credit expansion against $1 of money, their expansive power would be	$2,544,000,000
But as they are restricted in the act to $3 of credit expansion against $1 of money their actual expansive power is limited to	741,000,000
Which shows the same discrepancy of	1,803,000,000

between their expansive capacity and the compulsory credit contraction in the banks.

(No. 5.)

Whereas in the opinion of this convention there is not sufficient money in the national banks to meet the immediate requirements of the act:

Resolved, That we offer as ev dence thereof the following figures compiled by Mr. A. B. Stickney, of St. Paul, which have been checked in the office of the Comptroller of the Currency and certified correct.

Immediate cash requirements of the bill.

Before the Federal reserve banks can be organized the national banks must subscribe for their capital stock to the extent of 20 per cent of their capital, $1,056,919,792, and pay in cash 10 per cent.

Amount of this payment		$105,691,979
On the basis of June 4, 1913, reports, the amounts of actual money required for reserves at the outset are as follows:		
Total net deposits	$7,124,634,372	
Less time certificates	525,508,864	
Net demand liabilities	6,599,125,508	
3 per cent of net demand liabilities		197,973,751

Lawful money in bank:		
Country banks, $3,610,672,858 net deposits; 5 per cent	$180, 533, 642	
Reserve city banks, $1,945,874,457 net deposits; 12½ per cent	243, 234, 307	
Central reserve city banks, $1,568,087,056 net deposits; 25 per cent.		
Less 3 per cent on demand liabilities in Federal reserve banks	345, 401, 083	
		$769, 169, 032
Total cash required within 60 days after the organization		1, 072, 834, 762
Items possessed by the banks which the bill permits to be counted as reserve. The law permitting the 5 per cent redemption fund to count as reserve, the bill repeals:		
Fractional currency, etc	$3, 580, 483	
Specie	724, 074, 627	
Legal tenders	189, 908, 013	
		917, 563, 123
Deficit		155, 271, 639
If national-bank notes may be used to purchase stock in Federal reserve banks, the deficit would be decreased by		51, 538, 808
		103, 732, 831

This shortage of $155,000,000 would be the deficit in the actual lawful money requirements of the national banks, leaving them without any free money for current uses. The free money required and carried by the national banks for their current uses being usually about $150,000,000 and their having $51,000,000 in national-bank notes on hand, the actual deficit would be, in round figures, $250,000,000.

(No. 6.)

Whereas the currency commission of the American Bankers' Association, in its answer to question No. 13 of questions formulated by a subcommittee of the Banking and Currency Committee of the United States Senate, has expressed an opinion in regard to the requirement that there shall be organized not less than 12 Federal reserve banks,

Resolved, That we reiterate and approve such opinion, which reads as follows:

"In our opinion one central reserve association with branches would best serve our present necessities. Failing that, a small number of regional reserve associations, also with branches, might be organized to serve the purpose. The smaller the number of regional reserve associations, however, the more effective the reserve control. If there are to be a number of regional reserve associations, they should be under some kind of central control in which both the Government and the various associations should have representation.

"Three objections to the regional reserve associations occur to us:

"First. They will divide the cash reserve of the country into as many different ownerships as there are regional associations. No individual bank can now strengthen its cash reserves without at the same time and to the same extent depleting the reserve of some other bank, so with the regional reserve associations no one of them will be able to strengthen its cash reserves without drawing them from and reducing to the same extent the reserve of one of the other associations.

"Second. In connection with the shipping of reserve money from one section of the country to another. Under one central reserve association with branches this could be accomplished without change of ownership of the money shipped, as it would belong to the one association, irrespective of what branch had custody of it. In the case of independent regional reserve associations no such transfer of reserve money could be made from one region to another without a change in ownership. It would increase the reserve of the association that receives it and deplete by a similar amount the reserve of the association that ships it. In times of financial stress, when each regional reserve association would be husbanding its resources for the benefit of its own constituents, this might produce an undesirable and awkward situation, the interests of the various sections of the country being at variance. Such effect will be intensified in direct ratio to the number of regional reserve associations, and

"Third. Under one ownership and control of the reserves transfers of funds could under normal conditions be accomplished by book entries rather than by the shipment of money."

(No. 7.)

Whereas taken collectively the following provisions of the Federal reserve act are most objectionable to us:

1. The coersive feature of the act as stated in section 8, which provides that any national bank which shall not within one year after its passage become a national banking association under its provisions, or which shall fail to comply with any of its provisions applicable thereto shall be dissolved.

2. The provision that the national banks shall subscribe to the capital stock of the Federal reserve banks a sum equal to 20 per cent of their unimpaired capital, one-fourth of such subscription to be paid in cash, one-fourth in 60 days and the remainder, subject to call and payment whenever necessary to meet the obligations of the Federal reserve banks.

3. The provision that national banks within 60 days from and after the date the Secretary of the Treasury shall have officially announced the fact of the establishment of the Federal reserve banks shall deposit with the Federal reserve banks as part of their required reserve an amount not less than 3 per cent of their own total demand liabilities, exclusive of circulating notes, and at the end of 14 months from the date thus fixed by the Secretary of the Treasury shall increase the said 3 per cent to 5 per cent, such reserve deposit to at no time fall below the amounts aforesaid.

4. The requirements in connection with the reserve deposits to be made by the different classes of national banks in the Federal reserve banks. They are in any event too onerous. The proper mobilization of the cash reserves of the banks should economize their use and by concentration of them reduce the unscientific wide distribution of them which now exists.

5. The provision limiting the dividends on the capital stock to 5 per cent per annum.

6. The provision that no interest is to be paid by the Federal reserve banks upon any deposits except those of the United States and except such as the national banks may receive under the provision in connection with the division of earnings, whereby 40 per cent of the earnings in excess of 5 per cent to be paid them on their capital stock investment is to be paid to the member banks in proportion to their annual average balances with such Federal reserve banks.

7. The method of organizing the Federal reserve board, which places the management and control of the Federal reserve banks in the hands of seven men, all appointees of the President of the United States, with the advice and consent of the Senate, who would have no financial interest in the banks and who, with one exception, need not necessarily have any experience in or knowledge of the banking business. The management and control should be placed in the hands of experienced bankers and other men of business chosen jointly by the banks as proprietors and by the Government in the interests of the public because of their knowledge and experience in banking and other lines of business;

Resolved, That considering these provisions collectively we regard the measure as an attempt to force the national banks to contribute the capital and deposits in the Federal reserve banks, and we believe that the directors of the national banks, appreciating their responsibility in a fiduciary capacity to their stockholders and depositors, will not be so coerced until they have tested in the Supreme Court of the United States whether or not such coercion is a violation of the fifth amendment of the Constitution of the United States prohibiting the taking of property for public use without just compensation, and we further believe that even if it should be decided by the Supreme Court that it is not a constitutional violation the national banks of the country could not become parties to a banking system that proposes such revolutionary interference with the established credits now existing between the public and the national banks by the practical appropriation of one-third of all the actual money now in their possession, which is to be placed entirely beyond their control both as regards its management and its use as valid reserves against their deposits, except in so far as the advice of the Federal advisory council might influence the action of the Federal reserve board, which under the conditions and restrictions surrounding it could not be made effective.

(No. 8.)

Whereas the conditions and regulations under which the circulating notes are to be issued are in our opinion such as to make the note issue unscientific and impractical;

Resolved, That we offer the following in explanation of our opinion:

While the notes are to be the obligations of the United States they are in fact to be primarily the obligations of the Federal reserve banks guaranteed by the Government. Federal reserve banks are primarily charged with their redemption. As security for these primary obligations of the Federal reserve banks the notes are made a first and paramount lien on all their assets besides being collaterally secured by them by a specific pledge of commercial paper of equal amount and by the segregation of gold or lawful money equal to 33⅓ per cent of the amount of them outstanding. While they are to be redeemable at the United States Treasury, the funds for that purpose are to be supplied by the Federal reserve banks. Unless, therefore, the Federal reserve banks default in their obligation to redeem the notes the Government will not be required to pay or redeem them with its own funds. These notes should be made the direct obligation of the banks that pay them out and that are primarily responsible for the redemption of them.

The machinery provided for their issue, circulation, and redemption seems to have been unnecessarily complicated by an attempt to embody in the plan the erroneous principle that to the Government belongs the exclusive prerogative of issuing the circulating medium. The experience of the world has been that it is better for a government to provide the paper circulating medium indirectly through properly organized banks under strict government supervision rather than put the credit of the government at issue with every note placed in circulation. Troublesome times come to every community and to every nation, and it is better to have the credit of the banks called in question than the credit of the government itself. As bank notes they will be amply secured without the superfluous government guaranty. Issued by the banks when and as needed they would more readily automatically adjust themselves in volume to the actual commercial demands for them. As obligations of the Government they are likely, as do our present Government issues and our Government bond-secured national notes, to remain too long in circulation, no active redemption of them being deemed necessary. It is active and constant redemption of a circulating medium that makes it elastic. Expansion without contraction is not elasticity, but inflation.

The provisions recently added to the bill that whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank through which they were originally issued, and that no Federal reserve bank shall pay out notes issued through another under a penalty of a tax of 10 per cent upon the face value of notes so paid out, are good so far as they go, but when the notes are once issued by the Federal reserve banks the National and State banks doing business directly with the public would be the principal agencies through which the notes would be kept in circulation, and the practice now prevailing of receiving and paying out national-bank notes without special reference to the location of the bank that issued them would undoubtedly be continued in connection with the Federal reserve notes.

RECAPITULATION

Whereas the general effects of the measure on the existing credit relations between the banks and the public as they have been forecast would be ruinous both to the national banks and to general business;

Whereas, unless practically all the national banks agree to participate in the provisions of the measure and subscribe for the capital stock of the Federal reserve banks, it will be impossible to organize the Federal reserve banks and the measure will prove a failure;

Whereas the measure generally is in its main features unsatisfactory to the banks of the country;

Whereas in our opinion the national banks will not agree to it without a contest as to their constitutional rights and, even if such contest should be decided against them, are most likely to withdraw from the system; and

Whereas in our opinion the State banks will not voluntarily become parties to it: Be it

Resolved, That in view of these recapitulated considerations, which we believe to be facts, we would respectfully recommend to Congress that the attempt to pass the measure at the present special session be abandoned; and

Whereas, in view of the great importance of the subject, which is purely a business problem as far removed from politics as any problem affecting the interests of the public can be, the welfare of every citizen being affected by it, and the multitude of bank depositors in the country being specially interested in it; and

Whereas a good measure would protect the interests of all classes of citizens and a bad measure would be a universal calamity; and

Whereas we fully appreciate the necessity for early action: Therefore be it further

Resolved, That we respectfully recommend to Congress that a commission should be organized, composed of three men representing the Government, to be appointed by Congress; three men representing the commercial, industrial, and agricultural interests of the country, to be appointed by the National Chamber of Commerce; and three experienced bankers, to be appointed by the American Bankers' Association, to carefully consider the subject and prepare a bill to be submitted to the next regular session of Congress.

(Thereupon, at 6.30 p. m., the committee adjourned until Friday, September 19, 1913.)

FRIDAY, SEPTEMBER 19, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 1.30 o'clock p. m.

Present: Senators Owen (chairman), Reed, Pomerene, Shafroth, and Bristow.

The CHAIRMAN. Mr. Frame, the committee will be glad to hear you now.

STATEMENT OF ANDREW JAY FRAME, PRESIDENT OF THE WAUKESHA NATIONAL BANK, OF WAUKESHA, WIS.

Mr. FRAME. Mr. Chairman and gentlemen of the committee, I thank you for the honor of being called before you, and will say that I have had 50 years' business experience in banking, and I have been through the panics of 1873, 1893, and 1907, and the Waukesha National Bank has never suspended cash payments.

After listening to what has been said here in the committee, as I have——

Senator REED. Pardon me for interrupting you just a moment. You are the president of the Waukesha National Bank?

Mr. FRAME. Yes, sir; president of the Waukesha National Bank.

Senator REED. What is the capital of that bank?

Mr. FRAME. $150.000.

Senator REED. How long has that institution existed?

Mr. FRAME. Since 1865, as a national bank.

Senator REED. And how long have you been its president?

Mr. FRAME. Since 1880—33 years.

Senator REED. To what extent have you made a study of banking and currency, aside merely from your banking experience?

Mr. FRAME. All my life. I have read all the best authorities on political economy—at least the most of them—in my earliest banking experience, in the first 10 years of it. Since then I have been making a practical application of the principles of the banking business, with the experience of panics, and have been rereading the historical experiences.

Senator REED. Thank you, that is all I wanted to know at this time.

Mr. FRAME. After listening for the last two days, I am frank to say that I believe you are endeavoring to do what, in your judgment, is for the highest and best interests of the country. If we differ at all, we can not expect to be like unto a gentleman who lost his wife. The minister coming in, the man said to him, "I have lived 40 years with my wife and never have had a cross word with her." The minister replied, "Ah, man, but you must have had an awfully stupid time." I trust we will have no serious differences because of honest motives.

I believe in the mobilization of a certain amount of cash for abnormal periods—to take care of us in the day of trouble. And to my mind, it should be penalized sufficiently so far as the extra issue of currency is concerned, so that it would come out to help us during panicky periods, or previously thereto; and the penalization should be sufficient to drive it back again, so that inflation and overexpansion of credit may not result.

As a matter of relief, during panic periods—I want to illustrate it from a case that I have had in my own experience. As I say, I have been through the panics of 1873, 1893, and 1907. In 1893, during the panic, one-half of the banks in the city of Milwaukee were absolutely suspended.

Senator REED. You mean 1893, do you not?

Mr. FRAME. Yes; 1893. We live but 18 miles from Milwaukee. Naturally, the farmers, our depositors, some of them, became a little uneasy and began to withdraw their money from our bank. In order to replenish our cash on hand temporarily, until they got their second wind, I took $100,000 of bonds and went down to the city of Chicago——

Senator REED (interposing). What kind of bonds?

Mr. FRAME. Oh, various kinds—municipal and railroad and corporation—some corporation and some public-utility bonds. I sold $50,000 worth of those bonds for cash, costing us $1.02, at 92 cents. We lost $5,000.

On the other hand, I took the other $50,000 of bonds, and I borrowed $50,000 of money and put up those bonds as collateral security. I borrowed this for three months. I paid a rate of 8 per cent per annum therefor. That cost us 2 per cent for the $50,000 for the three months.

Senator REED. Was that net?

Mr. FRAME. It cost $1.000 for interest.

Senator REED. Oh, I see.

Mr. FRAME. But the bonds which we put up as collateral security were drawing 5 per cent. Therefore we received 5 per cent on our bonds, they paid 5 per cent per annum, which was, for three months, 1¼ per cent on the bonds that we received. Deducting that from the 2 per cent that we paid for the three months, we only lost three-fourths of 1 per cent in all on that $50,000, $375 being all that it cost us, net, to obtain that $50,000.

The CHAIRMAN. But you took the risk of the bonds being sold to meet the debt, did you not?

Mr. FRAME. Of course, at the end of the time.

The CHAIRMAN. But, I say, you took that risk, did you not?

Mr. FRAME. Yes. Panics are generally all over in two or three months. People get their second wind, they bring their deposits back again, securities revive, and business gets back into normal condition again.

Now, the point I wish to illustrate is simply this, that, in the light of that operation, I want to see the mobilization of cash so that the banks, when panic threatens, can take good securities and go where an extra pot of cash lies; and I care not what the rate of interest is, just so that I may get the cash so as not to suspend cash payments, which is always seriously detrimental, not alone to the bank, but it is detrimental in the stopping of the wheels of commerce.

If we can get the extra cash to replace that which is withrawn by the frightened depositors we run along in the even tenor of our way, and we do not suspend cash payments, and therefore the serious effects of a panic are avoided by keeping the wheels of commerce revolving and keeping labor employed. If we suspend cash payments disaster is the result. I wanted to give you just that as an illustration of my thought on the subject, as to what I would like to say.

The CHAIRMAN. You did not mention 1884.

Mr. FRAME. Well, that did not trouble us in our section.

The CHAIRMAN. In some parts of the country there was a panic in 1884, but in your part of the country, I do not believe there was?

Mr. FRAME. No; it did not trouble us.

I just want to add one other thing, if you will allow me: Before the repeal of the free silver bill in 1893—it was about two or three months after we had borrowed the money—our depositors had recovered their second wind, as I call it, and brought their money back again. We were then in ample funds, so I went to Chicago, with the full approval of all of the board of directors, and repurchased every single dollar of those bonds at the very same price that I had sold them for. So, fortunately, we did not lose anything on the operation.

Senator REED. As I understand, you bought back these securities and did not lose any money on the whole transaction?

Mr. FRAME. Yes; because we got in before the public got their second wind, as to buying securities. Within the week after we bought those $50,000 back again, the bond market was up at least 5 per cent, and within another week it was up at least 2 or 3 per cent more, and in another month they were back into the normal condition.

I have prepared here a few pages of what appear to me to be illustrations of the subject before us, and, without going through the bill itself, if you will allow me to just read my views, and then if there are any questions the committee would like to ask, I will be very glad to answer them.

The CHAIRMAN. If it is agreeable to the committee, I shall be very glad to have you read them.

Mr. FRAME. It will make your record a little more methodical, it would seem to me.

The CHAIRMAN. You may proceed.

Mr. FRAME. Our battle for the world's standard of value has been practically won. Now the paramount economic question before the

American people is, How can we minimize conditions which produce panics and also ameliorate their after-paralyzing effects?

Panics undoubtedly can not be wholly prevented, because it is impossible to change human nature; because nature is unlikely to be less fickle in her gifts to man; because prosperity and adversity follow each other as surely as the tide rises and falls; because where the rising tide of prosperity appears and a few clear-visioned Napoleons of finance make quick fortunes, the masses lose their conservatism, and riotous speculation ensues, resulting often in panic. Notwithstanding this, I am a firm believer in ameliorating panic conditions, both as to their frequency and severity. But how? My answer is:

First. By studying history and profiting by the experience of the past.

Second. By passing conservative and sound banking laws and then enforcing them.

Third. By providing cash on sound lines to meet extraordinary demands and immediately retiring it as soon as the pressure for funds is over, to prevent inflation, and also to be ready for the next emergency.

That word "elasticity" is a sweet morsel to play upon the credulity of an innocent public. It has worried the political economists of all ages. Its ghost still stalks forth in this enlightened day. The disease it attempts to cure, I diagnosed in a former address as "Hard-up." A large majority of the human family have an annual attack of it, and many have it in chronic form.

Senator REED. What does that "hard-up" mean that you have just mentioned?

Mr. FRAME. Well, I call it the "hard-up disease."

Easy methods of issuing I. O. U.'s rather aggravate the disease, but liberal libations of conservatism wonderfully ameliorate severe attacks.

The Standard Dictionary epitomizes conditions leading to panics as follows:

> An undue expansion of loans by banks; an unsound standard of value; overextension of mercantile credits and widespread speculation are forerunners of panics.

Let us never forget that confidence upbuilds and distrust paralyzes. The blighting effect of distrust in our standard of value which was the main underlying cause of the panics of 1873 and 1893 has given to our people convincing object lessons more potent than pages of logic that a 100-cent dollar is indispensable to stability and prosperity. With these calamitous conditions vividly before us it would seem, to provide an elastic currency to prevent panics, that the political economists of all ages have wrestled with this knotty problem with indifferent results.

To my mind the Imperial Bank of Germany comes closer to covering the correct method of relief, as it can issue but 130,000,000 of uncovered currency, and all in excess thereof must pay a tax of 5 per cent thereon to the Government, and therein alone lies flexibility. This penalizes overexpansion of currency and credit, and is the safety valve which has kept her overstrained condition from exploding. Even this method has taxed her utmost powers to pre-

vent a cataclysm there, as is evidenced by the German banks borrowing money of the United States banks on good collateral at rates running from 5 to 6 per cent clear through 1911–12. The banks of Germany even bid 20 per cent for money in the New York market in December, 1911, and at several periods since have bid in excess of 6 per cent.

Senator POMERENE. They have bid as high as 20 per cent?

Senator SHAFROTH. That was for call loans.

Mr. FRAME. Yes; that was for call loans. But it shows that even Germany with her flexible currency is still hard up occasionally.

Sentor POMERENE. You mean by that at the rate of 20 per cent per annum?

Mr. FRAME. Yes; 20 per cent per annum. Of course that is not equal to our own experience, where we have bid up to 100 per cent.

Senator SHAFROTH. 400 per cent.

Mr. FRAME. But that was an extraordinary case.

Senator SHAFROTH. Yes; it happened but once.

Mr. FRAME. And if we had a mobilized currency, in a centralized institution, where relief could be had we never would have any 100 per cent experiences.

Notwithstanding her 5 per cent penalized flexible currency saved her from panic, yet Germany has bordered thereon for some time, chiefly because of overindulgence in acceptances, which are more freely granted there than elsewhere, coupled with an enthusiastic industrial development, overtaxing her surplus capital.

Without further preliminaries, let us proceed to diagnose certain features of the "proposed bill on Federal reserve banks." I prefer not to discuss the matter of control, and will therefore confine my remarks to what seems to me more vital to the success of the measure.

First permit a specific reference to the effect of the "bill" on the bank of which I am president, the Waukesha National Bank. Ten per cent of $150,000 capital is $15,000; 10 per cent more, of course, is subject to call; 7 per cent of our deposits, $2,100,000, excluding savings, is $147,000; total required by the Federal reserve bank $162,000. This exceeds our total capital of $150,000. We probably would be willing to part with the $15,000 for capital and also 1 per cent of our deposits, $21,000, a total of $36,000, which, with like contributions of other banks, would seem to mobilize an ample quantity of cash to fulfill the true mission of a reserve bank, to wit, to prevent suspension in the day of trouble by being able to loan freely to solvent banks in any troubled section.

All other sections will then keep the even tenor of their way through confidence. But to be forced into parting with $147,000—practically our total capital of $150,000—which is not subject to call, and without interest, seems beyond reason.

Except in panic periods we never rediscount—I will say as to that, that I have inquired in Milwaukee of one of the great banks there, having 400 country-bank accounts; and with the close money market last fall, only 60 banks out of 400 asked for very moderate quantities of rediscount in Wisconsin.

Senator POMERENE. There is a sort of public prejudice against them, now; but assuming that the system is changed, do you not think that that prejudice would die?

Mr. FRAME. I do not think so. And probably we had better pass that, as I have some thoughts I should like to express on that subject later.

Senator POMERENE. All right. I did not want to interrupt you.

The CHAIRMAN. Will you put into the record here, Mr. Frame, the present reserves which you carry?

Mr. FRAME. The present reserves which we carry?

The CHAIRMAN. In your bank.

Mr. FRAME. Do you mean in amount of cash?

The CHAIRMAN. In percentage.

Mr. FRAME. In toto?

The CHAIRMAN. Your total present reserves.

Mr. FRAME. Of cash and due from other banks?

The CHAIRMAN. Yes.

Mr. FRAME. We average about 18 to 20 per cent.

Senator POMERENE. That would make, if your total deposits are $2,000,000——

Mr. FRAME (interposing). $2,100,000.

Senator POMERENE. That would make your reserve, then——

The CHAIRMAN (interposing). $420,000.

Mr. FRAME. We keep about that as an average.

Senator POMERENE. And what were your figures which you mentioned just now as to cash reserve and subject to call?

Mr. FRAME. It would take $162,000 under this bill, and we keep on hand about $150,000 of cash.

Senator REED. Well, when you said you had approximately $400,000 of reserve, you did not mean that you kept that all in your bank?

Mr. FRAME. We keep $150,000 in cash, and the $250,000 due from banks in Milwaukee, Chicago, and New York.

Senator REED. Yes.

Mr. FRAME. So that as to most of the banks in Wisconsin, under the suggestion which I made before, although there was a close market last fall, there were 340 out of 400 that did not ask for rediscount. I can understand that in the South they require more rediscount than we do in our well-settled section and in other well-settled sections of the country.

Most country banks do not have the kind of paper acceptable at a reserve bank, therefore the arbitrary call for 7 per cent of deposits from country banks beyond recall seems far beyond reasonable requirements and a burden that they can not afford to bear. Country national banks now hold at least 6 per cent of deposits in cash. In fact, they hold about 7 per cent in Wisconsin.

Senator POMERENE. National banks, or all banks?

Mr. FRAME. National. National banks must necessarily hold 1 or 2 per cent more, of course, than the law requires, for there are fluctuations all the time. The new bill requires 5 per cent. This is a reduction of 1 per cent. Therefore, to take 6 per cent additional from them requires withdrawals from other income-producing funds. This seems, to my mind, clearly unjust and unnecessary.

How will the bill affect all Wisconsin banks? Now, this, of course, is an extreme case, because I have included them all. But taking those who do join as against the whole the result would be proportionately the same.

Senator REED. Do you mean all national banks?

Mr. FRAME. I mean all national and State banks, as a matter of illustration.

Senator REED. Yes.

Mr. FRAME. If all joined, this bill would require 10 per cent of the total capitals of $3,800,000. They would be subject to call for $3,800,000 more, 7 per cent from country and 9 per cent from Milwaukee reserve city banks, barring savings deposits, $21,000,000; total, $24,800,000.

All banks in Wisconsin now hold in total cash 5¾ per cent of deposits, $21,000,000.

The new law compels banks to hold at least 5 per cent, and the three-quarters of 1 per cent extra would be necessary to cover daily fluctuations of cash. Therefore to comply with this new law, other income-producing funds, all of which will come out of Wisconsin, or securities, must be parted with to the extent of, say, $25,000,000, all of which would go out of Wisconsin into a Federal reserve bank at Chicago. Is that fair to the farmers, the merchants, and manufacturers of Wisconsin? To rediscount at the Federal reserve bank at Chicago, banks must simply part with their choicest securities, losing interest thereon, for the doubtful privilege of borrowing back their own funds which they deposited there. Will the Wisconsin banks voluntarily do it? The answer is found in my canvass of 450 country banks of Wisconsin under the former bill, which called for 5 per cent of deposits. The amended bill calls for 7 per cent, which is 2 per cent more burdensome than when the canvass was made.

I sent about 450 banks the following question:

WAUKESHA NATIONAL BANK,
Waukesha, Wis., July, 1913.

BROTHER BANKER: As the new Federal reserve bank bill (H. R. 6454 or S. 2639) is now before the country for consideration, I have tried to diagnose it, and without considering other points am anxious to secure a consensus of opinion from Wisconsin bankers on the following:

The bill provides that each national bank shall:

First. Subscribe 20 per cent of its capital stock as capital for the Federal reserve bank; 10 per cent must be paid in on joining; 10 per cent is subject to call of the reserve bank; dividends paid on capital are limited to 5 per cent per annum.

Second. Each bank must pay 5 per cent of its deposits into the Federal reserve bank, on which no interest will be paid, and such deposit is not subject to withdrawal at any time.

Third. Each bank must keep not less than 5 per cent of its deposit liabilities in cash on hand.

CONTRA.

The advantages to be derived therefrom appear to be the limited right to discount with the Federal reserve bank:

(*a*) Notes and bills of exchange arising out of commercial transactions, maturing within 45 days.

That was under the other bill. The bill provides for paper maturing within 60 days now.

The CHAIRMAN. Yes; and up to 120 days.

Mr. FRAME. Yes; up to 120 days. Then it was 45 days.

(*b*) Loans running not over four months, secured on bonds of the United States, States, counties, or municipalities.

(*c*) Acceptances based on imports and exports.

(*d*) Loans on collateral satisfactory to Federal reserve board.

Considering the advantages in contrast to the disadvantages, would your bank voluntarily join this Federal reserve association?

Sincerely, yours,

ANDREW JAY FRAME. *President.*

Out of the 450 letters sent out I have received up to this date about 320 answers. One small country national bank, with $25,000 capital, and one small State bank, with $25,000 capital, answered "yes," without qualification. Nine answered "yes," but expected the bill to be more or less modified.

Senator SHAFROTH. How many were there who answered that?

Mr. FRAME. There were 9. Out of 320 banks 309 answered "no."

Senator POMERENE. How many is that who answered "no."

Mr. FRAME. There were 309. I left out the Milwaukee city bankers, and therefore they were all country bankers.

Senator POMERENE. Did they assign any reasons?

Mr. FRAME. About 30 or 40 of them gave short or long reasons; but the general tenor of the reasons that were given was that they could not see their way clear to putting up 5 per cent of their deposits. They thought that was excessive and unprofitable to them; it seemed too much.

Senator POMERENE. Will it interfere with you if I ask a question there?

Mr. FRAME. No.

Senator POMERENE. Are you able to state what the average dividends are on your bank stocks in Wisconsin?

Mr. FRAME. No; I could not.

The CHAIRMAN. On your own bank, what would they be?

Mr. FRAME. On my own bank we make an average of about 8 per cent, I guess, of our capital and surplus.

The CHAIRMAN. What is your surplus?

Mr. FRAME. $150,000 now.

Senator POMERENE. Well, yours must be, from your statement, one of the unusually successful banks; and yours is about the equivalent of 16 per cent on your capitalization.

Mr. FRAME. No; I said capital and surplus.

Senator POMERENE. But 8 per cent——

Mr. FRAME (interposing). On capital and surplus.

Senator POMERENE. Well, I know; 8 per cent on the two.

Mr. FRAME. Yes.

Senator POMERENE. Or 16 per cent on the capitalization.

Mr. FRAME. It would be about 16 per cent on capitalization. But we have been in business now for more than 50 years.

Senator POMERENE. Yes; I understand that.

Mr. FRAME. It has been a long accumulation; slow.

Senator POMERENE. I understand that. Is it fair to assume that the average dividends on these banks are about 6 or 7 per cent?

Mr. FRAME. I think a little bit higher than that.

Senator POMERENE. 8 per cent?

Mr. FRAME. So far as national bank dividends are concerned, since 1863—50 years—I think they would average 8½ per cent.

Senator POMERENE. Well, assuming that it was 7 per cent. I suggest that, because I do not think yours is any criterion by which we can judge any other banks, by your statement.

Mr. FRAME. I think it a fair criterion.

Senator POMERENE. So that the stockholders would only be receiving 2 per cent more of dividends on their stock in the banks as now organized than they would receive on that portion of their capital which was invested in the stock of the regional banks?

Mr. FRAME. The fund which is put in by the different banks as stock for the regional reserve banks, as far as I am concerned, I can find no special fault with that, because I would be satisfied with 5 or 6 per cent on that.

Senator POMERENE. You would be just as much satisfied as you would be with a Government bond, and even more satisfied, because the income would be better.

Mr. FRAME. I do not find any fault with that.

Senator POMERENE. No; I do not think there can be any fault found with it. Your objection goes to the amount of the reserve.

Mr. FRAME. The percentage of deposits which are called for.

Senator POMERENE. Yes.

Mr. FRAME. Two per cent even on our $147,000 would make nearly $3,000 a year—just that 2 per cent alone would cut off 2 per cent per annum on our dividends.

Senator POMERENE. Well, I am interrupting your statement here, and I regret having done so.

Mr. FRAME. That is all right to get it in here if it will be of any assistance, of course.

Senator REED. Mr. Frame, have you finished that point about the canvass of the banks in your State?

Mr. FRAME. Yes, sir.

Senator REED. Then, I should like to ask you now if you think that the question which you sent out, together with the explanation, was a fair presentation of the advantages of the bill?

Mr. FRAME. It seemed to me to be so.

Senator REED. Well, did you anywhere state, Mr. Frame, that it was part of this plan, that when money was needed the reserve bank could transfer to the Federal Government the securities it had on hand and receive money at a low rate of interest, the money in turn to be distributed to the member banks; did you state that proposition to them?

Mr. FRAME. I thought it was covered in the question of rediscounts. I so understand it. It has the privilege of rediscounting at any time.

Senator REED. And you think that covered it?

Mr. FRAME. I think so.

Senator REED. Now, did you send anything else than just that letter, the substance of which you have read to us?

Mr. FRAME. No, sir.

Senator REED. You made an attempt to fairly state the case and secure an expression of opinion, did you?

Mr. FRAME. That is what I tried to do.

Senator REED. Do you know whether these bankers to whom you wrote, or any considerable number of them, had really taken the bill and studied the bill?

Mr. FRAME. You have asked me a question that it would be rather difficult for me to answer.

Senator REED. Well, I would not expect you to answer it, except that you might, by conversation, or by letter, have gathered knowledge of the fact that they were familiarizing themselves with the bill, or that they were simply acting upon the statements contained in your letter.

Mr. FRAME. Well, I think that more or less of them had studied the subject somewhat, but not thoroughly.

Senator REED. Now, have they had any meetings, the bankers of your State, since you wrote this letter?

Mr. FRAME. Yes, sir.

Senator REED. Have they discussed this bill in the meetings?

Mr. FRAME. Yes, sir.

Senator REED. What has been the character of those meetings; I mean have they been general meetings of the bankers, or only small groups of bankers?

Mr. FRAME. I sent general invitations to all of the national bankers, but not to the State bankers, because it is voluntary with them whether they come in under the bill or not.

Senator REED. You sent out invitations to a meeting?

Mr. FRAME. Yes, sir.

Senator REED. Did you have that meeting?

Mr. FRAME. We did; and nearly 30 of them attended, from different sections of the State.

Senator REED. Where did you hold that meeting?

Mr. FRAME. At Milwaukee.

Senator REED. And you got in about 10 per cent, then, of the national bankers?

Mr. FRAME. No; we got in more than 20 per cent.

Senator REED. You got in more than 20 per cent?

Mr. FRAME. Yes, sir.

Senator REED. The meeting was pretty generally attended from all parts of the State?

Mr. FRAME. They came from the West, clear across to La Crosse, Oshkosh, Fond du Lac, and other sections of the State.

Senator REED. So that you would say that the meeting would be fairly representative of the State at large, and not of a particular section of the State?

Mr. FRAME. Yes, sir.

Senator REED. Mr. Frame, did you adopt any resolutions, or do anything at that meeting?

Mr. FRAME. We did; and the resolutions are here.

Senator REED. Ah, well, I did not know that. So that you have a later expression of opinion than that contained in your letter?

Mr. FRAME. Yes, sir.

Senator REED. Can you tell us, without putting your record in at this time what that expression of opinion was as to the banks coming in or staying out of this plan?

Mr. FRAME. We passed resolutions; and if you wish I can read them.

Senator REED. Well, I would like to have them read into the record here, because it is on the same topic. Are they long?

Mr. FRAME. No; just one page.

Senator REED. Well, could you read the part in which they express their opinion as to coming in or staying out?

Mr. FRAME. Yes, sir.

Resolutions as passed by the country national banks of Wisconsin.

Whereas a conference under the auspices of the currency committee of the American Bankers' Association was recently held in Chicago which conference failed to adopt suggestions made by country bankers to reduce Federal reserve bank deposits required of country banks from 5 to 1 per cent of their deposits; at the same time this conference recommended material reductions as to reserve city banks' reserve requirements, which recommendation has since been incorporated in the bill. Further, such a reduction of reserves by the central reserve city banks is no burden to them as against a severe burden as placed upon the country banks, which the latter can not afford to bear, because their cash reserves are proportionately smaller; and

Whereas the bill as drawn has many admirable features, yet we as country bankers believe several amendments are very essential: Therefore,

Resolved, That we urge upon Congress the following essential principal changes, viz:

(*a*) So amend the bill that country banks not in reserve cities be compelled to contribute not exceeding 2 per cent instead of 5 per cent plus 2 per cent at end of three years of deposit liabilities for the reserve of Federal reserve banks.

(*b*) As section 27 of the bill (creating savings departments) provides for a segregation not only of securities covering the savings deposits but a segregation of capital to an amount equal to 20 per cent of capital and surplus; but capital can not be less than $25,000, and, requiring investment of such demand deposits in long-term securities, which we believe wrong in principle, and not offering such security as is now offered savings depositors, we urge this section be eliminated from the bill.

(*c*) That the term of real estate loans be increased from one year to five years.

(*d*) That dividends allowed reserve bank stockholders be increased from 5 to 6 per cent.

(*e*) That the 40 per cent of excess earnings allotted to banks be divided among them on the basis of capital stock in reserve banks instead of on average deposits therein.

(*f*) That banks be allowed the same interest on deposits as is allowed upon Government deposits."

That concludes the resolutions.

Senator REED. Well, I think that concludes the topic you were on, and I do not wish to interrupt you any more than is necessary.

Mr. FRAME. I just wanted to explain that point as to this savings-bank question. As you understand, country banks, of course, only have one of two employees in their office, and it is exceedingly difficult to segregate and keep two sets of books, and two banks really—and there is the double capitalization. That was one of the most serious objections to the bill; of course, I mean as far as country banks are concerned. I can, of course, understand that a segregation of the large banks in cities is all right, but as far as country banks are concerned, it is rather a troublesome proposition. Then, because national banks have capitalization, Government regulation, limitations on loans, and all that kind of thing, which is proof that we have got a wonderfully fine banking system, so far as safety is concerned, we thought that was ample security for savings-bank deposits.

But let us broaden into all United States national banks. Ten per cent of $1,050,000,000 approximate capital calls for $105,000,000. They are subject to calls for $105,000,000 more. Four and one-half per cent from central reserve city banks' aggregate deposits, say,

$2,000,000,000, is $90,000,000. Nine per cent from general reserve city banks' deposits of $2,250,000,000 is $202,500,000. Seven per cent from country banks' deposits of $3,750,000,000, aggregate, is $262,500,000. Total called from the three different kinds of banks, $660,000,000.

I allow off from this, for deductions as against requirements on savings-banks deposits, say, $60,000,000, leaving a net call on all the banks of $600,000,000 from national banks alone, not counting United States deposits, nor from a single State bank in the country.

To loan two-thirds of this $600,000,000, which the bill permits in normal times even, is simply competing for choice loans which all banks are now clamoring for, and with the very banks that furnish the funds without interest therefor. When so loaned the reserve is gone. Such colossal demands are not paralleled in the world's history on banking.

To take away from the national banks alone more than one-half of their total capital seems beyond the pale of reason. With over 25,000 independent banks in the United States, we now have the most democratic banking system in the world. The national banking system has proved the safest for the depositors the world ever knew. The State systems, under improved laws in most States, in the past 15 years have made wonderful strides upward.

If I may stop a moment on that question of the national banking system being the safest for depositors ever known, I will say that within the last 50 years, with the immense business of the national banking system, the total losses to all the depositors in the half century of business does not exceed $40,000,000. The City of Glasgow Bank, in Great Britain, failed in 1878, with 131 branches. It had $70,000,000 of deposits and its losses were about $35,000,000—almost the total losses to all the depositors in all the national banks of the United States from 1863 to the present.

Senator BRISTOW. What per cent of the deposits do the losses represent in that 50 years? Have you figured that out?

Senator SHAFROTH. It is said to be less than one-tenth of 1 per cent.

Senator BRISTOW. Is it not about one-fortieth of 1 per cent?

Mr. FRAME. I can not answer that offhand. I used to be a kind of walking encyclopedia on this subject; but I am getting along in years, so that the figures slip my memory.

Senator BRISTOW. I think it is less than one-twentieth of 1 per cent.

Mr. FRAME. But it is a healthful condition, all said.

Senator REED. Well, you do not seem to think that we have got the poorest banking system in the world, then?

Mr. FRAME. That is a broad statement that can not be verified. I am willing to stand up and debate it with any man on the face of the earth. I think I have proof in my papers, for I have been on platforms delivering addresses for 25 years. I have addressed nearly half the State bankers' associations of the United States, the American Bankers' Association, bankers' clubs, and business men's clubs all over the country, and therefore I have given the matter quite careful study, not only of our own system, but of the rest of the world—at least the progressive world. I have not gone into the unprogressive nations.

Again, in 1893, I think it was, in Australia they had 28 central banks with 1,700 or 1,800 branches. In that year, within six months, 13 of those 28 principal banks failed and, with 800 or 900 branches, closed their doors. The Government of Australia permitted them to take from one to five years in which to settle with their depositors. They did recover, but with quite a few of them it was a number of years before any dividends were paid. So that there is a branch-bank system in Australia that was far more disadvantageous than the splendid system which we have had, if we can only cover that one point—to prevent the suspension of cash payments. It is the only serious defect in our system, in my judgment.

I say, as to our banking system, that both State and national systems have done more for the farmer, the merchant, and the manufacturer in upbuilding this wonderful Nation than any monopolistic, branch-banking, cream-skimming system ever did for any Nation.

Senator REED. What kind of system?

Mr. FRAME. Cream skimming. I would like to illustrate, if you will permit me.

Senator REED. I thought you had given a phrase that I understood.

Mr. FRAME. I should like to give an illustration as to the Canadian banking system. Perhaps, however, I had better pass that for the present, and, if you will allow me, to explain what I mean by the cream-skimming system, I will do so later.

Senator REED. Yes; I wish you would.

Mr. FRAME. The only thing we need is a moderate mobilization of a part of our scattered cash reserves, which should be held like a full reservoir to put out a fire in its incipient stage whenever it appears.

As panics are bred only in great cities care for them once in 10 or 20 years, and the country will care for itself in normal times.

As to the fallacy that all other nations are free from panics, I respectfully refer to my late Oklahoma address, entitled "Facts *v.* Fallacies in Banking Reform," pages 4 to 7, and I am impressed that the most skeptical will accept the evidence as conclusive.

Senator REED. Now, you are referring to something that may be interesting. Have you that here with you?

Mr. FRAME. I have it here.

Senator REED. If you are going to refer to it, I suggest that you put it in the record.

The CHAIRMAN. Yes; I think that would be well. Let it go in.

Mr. FRAME. Well, then, if I give an explanation of it, perhaps there is no occasion for me to make any further record of it.

Senator REED. If you are going to read it in, why not do so, and let us hear it while you are upon the subject? How long is it?

Mr. FRAME. It is perhaps 8 or 10 pages.

Senator SHAFROTH. You could read that without quoting all of it, could you not?

The CHAIRMAN. Just a part of it.

Senator REED. The part that you have referred to, Mr. Frame.

Senator SHAFROTH. Well, I think he had better get through with this statement of his first.

Senator REED. Well, you have referred to a document as proof of the fact.

Mr. FRAME. As proof both as to this question of panics and as to the Canadian banking business. They are both in the pamphlet. I think it would be better to put both in.

The CHAIRMAN. What is the pleasure of the committee?

Mr. FRAME. It also covers the banks abroad.

Senator REED. Well, if you have got two different subjects there, I did not understand that. It seemed to me that it should be put in the record differently. I supposed that you had some documentary evidence of the assertion you have just made as to panics.

The CHAIRMAN. The statement to which he has referred is an argument previously made by him.

Mr. FRAME. The part in reference to panics is covered in pages 4 to 7.

Senator REED. Well, is there not a table in that book showing the different panics?

Mr. FRAME. Yes, sir; the panics in this country and abroad.

Senator REED. Suppose you put that table in and then you can put the whole thing in, possibly.

The CHAIRMAN. Whatever is agreeable to the committee is agreeable to the Chair.

Senator SHAFROTH. I think we had better let Mr. Frame put in that pamphlet wherever he wishes it to go.

Mr. FRAME. There is little in the paper outside of those two subjects which I have already touched upon.

Senator SHAFROTH. Do you want it to go in right now or do you want it at the end of your statement?

Mr. FRAME. It had probably better go in as an addenda to my statement.

The CHAIRMAN. Very well; it will be inserted in the record.

(The paper directed to be incorporated into the record appears at the close of Mr. Frame's statement.)

Mr. FRAME. I now refer to national-bank reserves, approximately, at the end of three years, as required. I wish you to note what appears to me to be an unjust discrimination toward country national banks. First the three central reserve city banks must contribute 10 per cent of capitals on, say, $180,000,000, which is $18,000,000, subject to assessment of $18,000,000 more; 4½ per cent of aggregate deposits—say, $2,000,000,000, which would be $90,000,000, making the total required of three central reserve city banks $108,000,000.

As these banks are now required to hold in cash 25 per cent of deposits, and the new bill reduces it to 18 per cent, that releases in cash 7 per cent of deposits from the central reserve city banks, or $140,000,000. This costs them not $1 and leaves $32,000,000 toward liquidating any reduction of other reserve-bank deposits, the burden of which is problematical.

The fact is that it really relieves them about $50,000,000 because the $18,000,000 that they contribute to capital they get dividends on. It is a mere transfer of their funds of $18,000,000 of ordinary loans for which they would receive 5 per cent dividends on stock in the Federal reserve banks. It would be a fair exchange. Transferred in that way into capital stock, it would pay them about the same, except that it takes $18,000,000 out of their funds, which they ordinarily might use in other lines. That, however, is a small matter.

Second. The general reserve city banks must contribute 10 per cent of capitals on, say, $270,000,000, which is $27,000,000; subject to assessment of $27,000,000 more; 9 per cent of aggregate deposits, say, $2,250,000,000, which is $202,500,000; making a total required $229,500,000.

The present law requires 12½ per cent cash reserves. The new bill requires 9 per cent. That releases in cash 3½ per cent of deposits, or $78,750,000. This takes from them over $150,000,000, in addition to the country bank deposits they will lose, from those joining the Federal reserve bank. This burden is a serious one and probably will precipitate trouble.

Third. The country banks must contribute 10 per cent of capitals on, say, $600,000,000, which is $60,000,000; subject to assessment of $60,000,000 more; 7 per cent of aggregate deposits, say $3,750,000,000, which is $262,500,000. This makes the total from country banks $322,500,000. Cash reserves now required is 6 per cent; in the new bill 5 per cent. This releases 1 per cent of deposits, or $37,500,000. This means the country banks must contribute, net, $285,000,000 from their assets, in addition to $37,500,000 cash, for the use of the Federal reserve bank. The balance of cash on hand is required under the new bill for reserves. The only deduction I can see is to cover savings bank deposits of, say, one-tenth of the total.

Now, can any statesman justify such calls, especially from the country and general reserve city banks? This transfers immense sums to the great cities and impoverishes the country banks' loaning powers. Is it constitutional to arbitrarily take such colossal sums from the banks? Stock subscriptions and deposits in European central banks, I believe, are entirely voluntary. Why not do likewise here?

I am with you, except only I think that it is excessive. I believe in the underlying principles of the bill.

We all desire a reasonable mobilization of cash to the end that cash suspension of banks may be avoided, but such calls seem far beyond reason to accomplish the object sought. Reason must reign, or a continual warfare for a repeal of the bill will bring a second Andrew Jackson to destroy these banks.

What we want to do is to work in harmony together. We want it so reasonable that we can afford to go into it even if it should cost a little to go into it. I am willing that it should; I believe all banks are willing that it should; but I believe you should do what seems fair and not oppressive.

From my canvass of 450 country banks of Wisconsin, the result of which is herewith submitted, I am confident if country national banks contribute 10 per cent of capitals and 1 per cent of deposits, approximating $100,000,000, it is all that should be required of them. To demand more, I believe, will seriously injure if not wreck the system, and State banks will not join.

I respectfully submit herewith a tentative compromise plan, which should be acceptable to the Government, as it covers the underlying principle of the bill, and probably would be acceptable to the banks. The object sought would also be attained. Let us get together and preserve our splendid independent banking system.

I now come to the tentative suggested amendments to House bill 7837 on Federal reserve banks.

The reserves: National banks are now compelled to hold in cash as reserves, in three central reserve cities 25 per cent of deposits, in general reserve cities 12½ per cent of deposits, and in country banks 6 per cent of deposits. I would amend as follows, in order to mobilize cash for troublous periods:

Take 5 per cent of deposits from the 25 per cent held by three central reserve cities, say, $85,000,000; take 2½ per cent of deposits from the 12½ per cent held by general reserve cities, say, $50,000,000; take 1 per cent from the 6 per cent held by country banks, say, $35,000,000.

I may be low on my estimate there.

This will mobilize in cash about $170,000,000. This is not counting a percentage of deposits of banks with reserve banks. I do not make any compilation on that, but the new bill requires these percentages on aggregate deposits; so that it will require not only on individual deposits but on banks with banks. I am sure I am right about that; so that it will increase this probably to $200,000,000. This is taking just one-fifth, approximately, of the cash now held by each of the different kinds of banks—three central reserve cities, general reserve cities, and the country banks.

If 5 per cent and 2½ per cent, respectively, of these were included, it would increase the mobilized reserve of cash to, say, $200,000,000.

The 5 per cent, 2½ per cent, and 1 per cent cash taken from present reserves should be still counted by depositing banks as reserves while it is in the Federal reserve bank, and would leave ample cash in all banks for ordinary times. The country banks can not afford to part with 7 per cent of their deposits for use of the Federal reserve bank.

It seems reasonable that the banks would accede to this, as it is not seriously burdensome to part with, say, one-fifth of their cash, as they would have the assurance that the cash mobilized in the Federal reserve bank would assist any section of the country when trouble threatens. This would inspire confidence. State banks in well-developed sections would be inclined to join under these conditions, and, if done in great centers, the $200,000,000 reserve would be materially enlarged. If capitals paid in and Government deposits were added, the reserve funds would probably exceed $350,000,000, which is ample for all reasonable requirements.

I think I am materially within the mark, as I want to be careful of my statements.

As a secondary relief for emergencies, permit State as well as national bank members to borrow from the Federal reserve bank, secured by ample high-class collateral from a fund of Federal reserve bank notes held for that purpose. Such currency should be loaned on a plan similar to the 5 per cent taxed currency issued by the Imperial Bank of Germany, which gives true flexibility there.

I will say that in the past 35 years the Imperial Bank of Germany has loaned its 5 per cent taxed currency to the other banks on rediscounts some 200 times. It comes out when there is a pressure for funds, rises sometimes higher or lower, as the case may be, and just the moment the rate of interest drops a little below or down to normal the 5 per cent taxed currency is retired.

Senator REED. When it touches 5 per cent it comes back pretty fast.

Mr. FRAME. That is what brings flexibility to it. Flexibility means expansion and contraction. If you do not have expansion and contraction, you will never have flexibility. You must have contraction which comes with it. That is the experience of Germany.

As to capital, say 10 per cent subscribed and 5 per cent paid in, that would add $50,000,000. As to banks generally subscribing 20 per cent and at once paying in 10 per cent of their capitals, as capital for the Federal reserve bank, and receive dividends limited to 5 per cent per annum paid on capital, it is doubtful about country banks in undeveloped sections joining, as interest rates would naturally prevent.

Banks where surplus capital is not abundant and their own home demands require it—and at higher rates than the 5 per cent—would think it quite hard to have to part with it simply for the purpose of getting the rediscounts for relief in panic periods once in 10 or 20 years. If the present centralized institutions could obtain relief when needed, all other banks would get all accommodations and relief necessary through the present system of central reserve depositories. If our credit is good with the banks with which we do business in Chicago, Milwaukee, and New York, we can always get a rediscount, and if we had a Federal reserve bank with a mobilized lot of cash ready to take care of them, we would never have a suspension of cash payments.

If we had had a Federal reserve bank in New York in 1907 when the depositors were pulling funds out of the trust companies that first got into trouble, and then it spread to other banks through distrust and generally cash began to be lowered, all the banks got together for fear they were going to lose all their cash. They decided to suspend cash payments and wired to all the banks throughout the country, "No cash going out of New York Monday morning on balances." Those banks in New York which were perfectly good, like the National City Bank, the First National, the Chase National, held limited reserves. If they could have had a pot where they could have got rediscounts on securities from some extra cash reservoir they never would have sent such a telegram throughout the country and we would have gone along the even tenor of our way about the business of the country.

Senator POMERENE. That is, they kept the money for their own use and let the country bankers outside take care of themselves?

Mr. FRAME. Well, I think that was justifiable. They only had limited reserves. If they could have had a pot where they could have gone to; if they could have had a pot like the Aldrich-Vreeland Act now upon the statute books provides for——

Senator POMERENE. That fact alone indicates the necessity for some change in what you call the beautiful independent banking system.

Mr. FRAME. It is all right, except for that one feature, a rigid currency. I said that in the beginning; but as far as the general banking system itself is concerned I think it is all right.

Senator REED. You think it is not necessary for a man to surrender his liberty as a citizen in order that he may have some special advantage conferred upon him once in a while by the Government?

Mr. FRAME. That is the thought; but I think the scope of the bill is too large and more than is really necessary to accomplish the

object sought. That is the important thought. I believe in the underlying principles of the bill, as we want relief so that we need not have cash suspension; but I do not believe in such generous, large contributions; I do not believe that is necessary to accomplish the object sought.

Senator BRISTOW. Now, suppose that bank in trouble in 1907 could have gone to the Government with approved securities and got currency for them as it needed it without any of this supervising machinery to lie dormant here for so many years?

Mr. FRAME. You mean to have gone direct?

Senator BRISTOW. Yes; to have gone direct. Why would not that have answered the purpose just as well?

Mr. FRAME. From a fund that the Government held? Is that your idea?

Senator BRISTOW. Yes.

Mr. FRAME. And how would that fund be accumulated or loaned?

Senator BRISTOW. It would be divided just as the money we have now under the Aldrich-Vreeland Act.

Mr. FRAME. You would have a large fund of cash in some reservoir, retaining it and loaning it when panic or trouble ensued?

Senator BRISTOW. Well, we would have it if it is needed.

Mr. FRAME. I believe in that; but I would penalize it by a tax sufficiently high, because if you do not do that, as long as you can issue currency at will, without a tax, and loan it at high rates of interest you tend to overstrain credit.

Senator BRISTOW. Yes; that is true, of course. That is a question of the amount of the tax.

Mr. FRAME. That is a question as to how high the tax should be.

Senator BRISTOW. The Aldrich-Vreeland Act provides for taxation, and the objection to it, as I understand it, is that it is not made available with sufficient ease. The objection is not so much against the interest as to the methods by which it may be utilized.

Mr. FRAME. I agree with you perfectly on that; yet, at the same time, before a bank would suspend I think it would put up the bonds as collateral security. We hold $100,000 of bonds to-day; we have held them since that bill was enacted into law. Eighty banks in the State of Wisconsin hold bonds they purchased for the purpose of getting additional currency under the Aldrich-Vreeland Act should occasion require. They hold it as a kind of secondary reserve, and if it came to the point that it was absolutely necessary to do so to prevent cash suspension we would put up our bonds and get our currency. There has been, as Prof. Sprague said, a sentimental protest against it because of its publication. If it could be done, and done quietly, without making a noise about it through the public press—if you can arrange in some way so that that can be done I think it will be availed of. Other rediscounts with present central organizations, in normal times, are ample.

Senator BRISTOW. So that the public would not get the impression that the bank had had financial trouble?

Mr. FRAME. Exactly.

Senator BRISTOW. So that no other view of this could be taken except that it was simply a business move and not an indication of danger?

Mr. FRAME. That is right exactly. You were not here when I commenced my statement and spoke of how I got relief in 1893. I regret that you were not.

Senator BRISTOW. I will be glad to read it when it is printed in the hearings.

Senator REED. Now, about the money which was provided for by Aldrich-Vreeland bill. It has never been used, but since 1907 we have never had any very bad times, have we?

Mr. FRAME. It has been a little close this fall but not to the extreme that it has compelled banks to take advantage of it. I believe that nearly $300,000,000 of capitalization of the banks of the United States, principally in the great cities, have organized under the Aldrich-Vreeland Act to take advantage of it in case of necessity, and the kindness and goodness of our Secretary of the Treasury in saying that he proposed to issue that if it became necessary and his disposition of the extra funds that he has distributed throughout the country has restored a condition of confidence, and loss of confidence is what produces panic. Confidence upbuilds, distrust pulls us down.

Again, country banks rarely have the kind of prime paper discountable at the contemplated reserve bank.

Take care of the big centers in trouble, and the country will never be seriously agitated.

A Federal reserve bank on above lines in New York, Chicago, and San Francisco, will fully accomplish the end sought without vast expense.

If my suggested tentative amendments as to reserves as hereinbefore noted were adopted, to my mind you will fully accomplish the objects sought and without material expense, as it could be done through present subtreasuries. A large number of Federal reserve banks would be very expensive in outfits, managements, employees, etc. Therefore three subtreasuries now doing business would limit the cost. In ordinary times the present central reserve banks will take care of us all right, just as they do now, but occasionally in a hard money market these three subtreasuries would assist any section of the United States without any trouble whatever. The First National Bank of Chicago has its correspondents scattered from one end of the Northwest to the other, clear over to Washington, Oregon, and California. If that bank is asked for a rediscount, it knows whether to make it or not. Therefore there is no difficulty in a few centralized organizations taking care of our vast country as a panic panacea.

Senator REED. You hold that the banks of to-day have intimate knowledge of the business of banking and the solvency of their correspondents?

Mr. FRAME. Central reserve banks keep credit bureaus so that they keep tab on country correspondents.

Senator REED. So that they are able to determine what paper they shall take, and they do that without assistance from the Government in the way of governmental inspection of the paper?

Mr. FRAME. Yes.

Senator REED. I do not mean of the banks.

Mr. FRAME. Yes, sir; I think so; without any trouble.

I would like to speak just a moment or two upon the gold standard under the bill.

Great Britain, since 1816, unequivocally maintained it, and London is the world's clearing house.

We have fought the good fight for the gold standard for 40 years and won.

Our coin and currency holdings are now plethoric. As we have in gold about $1,800,000,000, soft money, national-bank notes, silver dollars, legal-tender notes, and subsidiary coin; about $1,800,000,000, total, say, $3,600,000,000.

About one-half of our total circulation is "flat money." Far in advance of all Europe combined.

This "bill" permits an unlimited issue of currency above that now outstanding. The bill also provides for Federal bank reserves, either "gold or lawful (credit) money."

Dr. Adam Smith says:

> The cry of all ages is for more money. Money, like wine, is always scarce with those who have neither the credit or wherewithal to buy it.

Christ said:

> A wise man builded his house upon a rock, but the foolish man upon the sand. When the rain descended and the floods came and the winds blew the wise man's house fell not, but as to the foolish man's house great was the fall thereof.

Is not this a perfect simile to apply to the building up of the superstructure of our great credit system upon a sound metallic currency for a foundation as against the sands of a credit currency? The pages of history are strewn with proofs that when the great instrument of exchange is deranged all trade, all industry, is stricken as with a palsy. That instrument of exchange recognized by the world as the solid foundation that does not totter when the storm rages in its severest intensity, is the only foundation for a prosperous people to rest upon and to-day our coffers hold over a billion of dollars of it. This is a billion-dollar country and we need it. This gold has come to us since 1873 in the natural course of trade in response to the well-known principles of the Gresham law and monetary science as expounded by Dr. Adam Smith, Ricardo, Jevons, Sumner, and many other eminent economists, and as also clearly set forth in what Prof. Sumner dubs the most important document in financial literature, "The celebrated bullion report of 1810 to the House of Commons." I have quoted these maxims before, but deep-seated error requires repetition of them again and again. Summed up these principles are:

1. That rich countries will have all the coin they need, providing no impolitic act of legislation interferes to force it out of circulation by the injection of inferior currencies.

2. When the coin in any country exceeds the effectual demand no vigilance of government can prevent its exportation.

3. It is the province of Government to settle the quality question of money, and the needs of commerce will settle the quantity.

In proof of the above maxims, history says, Chinese walls, jails, shotguns, or hanging did not prevent exportation of coin, and in these modern days the object lesson of the exportation of millions of gold in the past three months in the face of the plea for "more money in the United States" is more potent than pages of logic. Let us fix the "quality" question and stop tinkering with the "quantity," as the needs of commerce will settle that.

All issues, not gold, are "inferior currencies." If we inject more I. O. U.'s as a product of the printing press than we have now, we drive gold out under the Gresham law.

Prof. Jevons says:

> Many well-intentioned people have disbelieved in the Gresham law, to the great cost of States and the perplexity of statesmen who have not studied the principles of monetary science.

I firmly believe this bill to hold as reserves for liabilities of the Federal reserve bank either "gold or lawful money" is a menace to the gold standard, and will postpone the day when New York City will become the world's clearing house, thus supplanting London.

The House of Representatives is to be commended for its noble stand yesterday to maintain the gold standard, but I am strongly impressed the foregoing will add strength to our onward progress toward the world's financial supremacy.

Senator REED. What is it that they did in the House of Representatives yesterday that you specifically refer to?

Mr. FRAME. They indorsed the gold-standard bill of March 14, 1900; that is the thing I commend.

In this bill the 33⅓ per cent against liabilities should be gold, and gold alone.

Senator REED. You think what ought to be gold?

Mr. FRAME. The reserve. I think that the Federal reserve bank must hold on outstanding liabilities gold instead of lawful money.

Senator REED. Have you finished referring to your manuscript?

Mr. FRAME. Yes, sir.

Senator REED. You have already touched upon the matter, but I want to ask you a question or two about it. We have been frequently told that this banking system of ours is the poorest in the world. You say that it is one of the best. Is there any banking system anywhere in the world that you know of that, taken all in all, is as good as our banking system in your opinion?

Mr. FRAME. I think there is not one in the world equal to it.

Senator POMERENE. There is not, you say?

Mr. FRAME. I say there is not—and most State banking institutions to-day are materially better than they were 15 years ago. They are improving continuously.

Senator REED. Speaking of panics, we have heard a good deal in these hearings about the wonderful system in England, conducted by the Bank of England, and while you have, by reference, incorporated this report of yours on the Bank of England into the record, I want to ask this question about it. On page 6 of this document which you attached as an exhibit is a statement of panics and of losses.

In Great Britain, from 1836 to 1839, we have reported panics with no record of the losses.

Mr. FRAME. I was unable to find any.

Senator REED. And the same years a panic in the United States with no record of losses?

Mr. FRAME. I was unable to find any also.

Senator REED. In 1847 you have recorded in England a panic and a loss of £15,000,000 and no corresponding panic for that year in the United States.

Mr. FRAME. That is correct, except liabilities were £15,000,000 sterling, not losses.

Senator REED. Where did you get your figures for that statement? That was £15,000,000 loss in England.

Mr. FRAME. That is on page 5.

Senator REED. That is quoted from McLeod's History of Banking. Is that a standard work?

Mr. FRAME. I think there is no doubt of it.

Senator REED. In 1857 you have recorded another panic in Great Britain with the statement "no record except far greater than 1847." In that same year there was a panic in the United States. So that again it transpires that we had a panic the same year Great Britain did and there was no record preserved of losses.

Mr. FRAME. I was unable to find any.

Senator REED. In 1866 we have reported in England a panic with a loss of £50,000,000.

Mr. FRAME. Yes, sir; 1866, with liabilities of £50,000,000 sterling, not losses.

Senator REED. And a panic for the same year is not recorded in the United States.

Mr. FRAME. There was none then.

Senator REED. Where do you get your authority for your statement that there was £50,000,000 loss by the panic in England—from McLeod's History of Banking?

Mr. FRAME. Yes, as to McLeod; but the liabilities of the failed banks were £50,000,000.

Senator REED. These figures represent the liabilities?

Mr. FRAME. Yes, sir.

Senator REED. But they do not then, of course, represent the losses?

Mr. FRAME. No, sir.

Senator REED. Have you anywhere any figures showing what actually was lost?

Mr. FRAME. I was unable to find any record of that.

Senator REED. In 1873, according to this report, we appear to have had a panic, whereas they did not have in England a panic that year; and you have here a record of £2,200,000—our money being reduced to pounds—in the national banks of our country.

Mr. FRAME. The banks that failed in 1873—national banks—had liabilities of £2,200,000.

Senator REED. There would not appear to be any relationship between that panic in this country and the panic in England.

Mr. FRAME. No, sir.

Senator REED. In 1878 a panic is recorded in Great Britain with liabilities of over £20,000,000.

Mr. FRAME. Yes; £20,000,000.

Senator REED. And we had no panic in this country that year?

Mr. FRAME. No, sir.

Senator REED. In 1900 they had another panic in England.

Mr. FRAME. That was in 1890.

Senator REED. That is right—with liabilities of £21,000,000.

Mr. FRAME. Baring Bros. failed for £21,000,000.

Senator REED. That was the Baring failure?

Mr. FRAME. Yes, sir.

Senator REED. And we had then in 1893 the panic recorded here, with liabilities of national banks at £6,000,000 and of all other banks £14,800,000. Do you get all those figures from McLeod?

Mr. FRAME. No; those figures of 1893 are taken from one of the reports of the Comptroller of the Currency.

Senator REED. In this country?

Mr. FRAME. Yes, sir.

Senator REED. Now, I want to ask you this question if you can tell me. Take this panic of 1836 to 1839 and the same period of years the panic in this country. Is it your opinion that those panics had any relation to each other or just happened to occur at the same period of time?

Mr. FRAME. Well, I think not, except in 1856 and 1857. I think those panics seemed to be world-wide, or at least happened abroad and in the United States, too.

Senator POMERENE. What years do you refer to?

Mr. FRAME. 1856 and 1857.

Senator REED. Do you know where the panics first started—whether it started in Great Britain or in this country in 1857?

Mr. FRAME. I could not say.

Senator REED. Let us go to 1890 in England. The Baring Bros. failure in 1890. In 1893 we had a panic in this country. Is it not a fact that the Baring Bros. failure in England produced or was followed almost immediately by great stringency in this country, and did that not continue until 1893, when it culminated in the panic in this country in that year?

Mr. FRAME. That undoubtedly added to our troubles. I do not think there is any question about that. I was in the banking business at that time and I felt it myself.

Senator REED. So that, if your figures are correct here, they have had panics in England notwithstanding the Bank of England and this magnificent banking system over there, and they have had panics just as bad as we have had them.

Mr. FRAME. The facts seem conclusive, more than we have had, notwithstanding the air is surcharged to the contrary.

Senator REED. I want to ask you now in regard to the character of security which you think could be accepted safely by the Government when it is called upon to issue money to either of these regional reserve banks, or if that plan is not adopted to groups of banks or to individual banks. What character of security should the Government safely take?

Mr. FRAME. I should say that it ought not to take anything except the very highest class of securities for ordinary times, and when we require it for extraordinary periods the standard ought to be kept exceedingly high. Allow me to explain a little bit there. Perhaps I might go beyond what you desire.

Senator REED. Go as far as you like.

Mr. FRAME. I was through the early days of wild catting. I have bought currency which was depreciated and currency which was based upon all kinds of securities, commercial paper, State bonds, mortgages, and one thing or another issued by State banks all over the United States. I have bought currency over the Waukesha County Bank counter, starting at 9 o'clock in the morning, buying

that depreciated currency at from 2 to 50 per cent discount, and at 4 o'clock in the afternoon I would not have currency enough to do business with the next day. I would take that discredited currency to Milwaukee. They would wait after banking hours for me to exchange it for current money that I could take home and do business with the next day.

Senator REED. When you bought it how did you pay for it?

Mr. FRAME. New York currency was good. Some States were good. With this we bought the discredited currency of Wisconsin and Minnesota, Iowa, Michigan, Indiana, Illinois, the great bulk of which was discredited and fluctuated in value day after day, according to the confidence of the human family in its final redemption.

Farmers in my section would start at 4 o'clock in the morning to carry their grain to Milwaukee, get their checks, draw the money, and then they would come to the Waukesha County Bank and deposit that money, because they felt great concern about its stability.

Those experiences have impressed upon my mind the absolute necessity of issuing no currency except that which is unquestionably secured, and I suppose I will go to my grave with that impression. Since 1863, when the national-bank law went into effect and Government bonds were put up as collateral security, no man has pulled out of his pocket a national-bank note and said to himself, "Will that be redeemed; can I get good money for that?" It is good beyond question. Therefore you can see that the trend of my talk is that if we issue any currency at all it must be a currency in which the people must have confidence. If it is to be done at all, the security should be unquestioned, so that no man will ever pull the money out of his pocket and say, "I am a little doubtful about that, and I guess I will go and get gold for it." I want it so he will never want to do that.

Senator REED. That is very good as a generalization, but of course I think we all agree on the fundamentals.

Mr. FRAME. Yes, sir.

Senator REED. But I am trying to get a more concrete statement. It is contemplated in this bill, and it is contemplated in any scheme which proposes to have money issued to meet the extraordinary conditions which arise in the country, either of emergency or of unusual demand, that the Government shall issue money, either permanent or temporary, and of course both theories have their advocates. Now, what I am inquiring about is, what kind of security should the Government have; not merely whether it is good or bad, but must it be short-time paper of individuals indorsed by banks, must it be Government bonds, or may it be other classes of security?

Mr. FRAME. For permanent issues I think that it ought to be Government bonds. For a temporary emergency currency it might be State, municipal, or county securities that are unquestionable. You know we have the limitation on indebtedness, and indebtedness of municipalities should be down to 5 per cent, or not to exceed 10 per cent, as in New York.

Senator REED. That is within the statutes of legal limitations in the States?

Mr. FRAME. Yes. Then, if we have a Federal reserve bank, the management must have some discretionary powers as to what securi-

ties it will take. As far as the issuance of that kind of currency is concerned it will not be distrusted on the part of the holder of the notes providing there is ample capitalization of the bank that issues it.

Senator REED. I want to ask the attention of the committee for about five minutes now to the questions that I am going to ask Mr. Frame, because, if I am right about this thing, we have been wrong about a theory, or some of us have been wrong.

I do not care now whether it comes through the medium of the reserve banks which may be established, or whether it comes through individual banks. You say that when the Government is required to issue a million dollars that a Government bond is an ideal thing to put up with the Federal Government upon which to issue that money. Now you say, in addition to that, you think that first-class industrial securities and State bonds might be received also?

Mr. FRAME. Not industrial, but State, municipal, and other high-class bonds for extraordinary occasions.

Senator REED. Very well.

Now, the claim has been made that if such bonds are long-time securities, not maturing rapidly, they can not be used, and that the only thing upon which money can be quickly issued, particularly emergency money, is short-time paper, which readily matures and consequently pays itself off. What have you to say about that?

Mr. FRAME. I simply say that the proof of the pudding is in eating it—in a practical application of it. In the introduction to my statement I said I took $50,000 of bonds and went to Chicago and borrowed $50,000 on it. I got the cash.

Senator REED. But you went and borrowed from somebody else and you happened to find a man able to lend that amount of money.

Mr. FRAME. Yes, sir; but if the Federal reserve banks were opened, or even under the Aldrich-Vreeland Act, we now hold $100,000 of bonds that we can walk into the Treasury with to-day and get the money on those bonds.

Senator REED. But I am dealing with this question of liquid securities. I have heard that until I think it has begun to vaguely filter through my mind. At first I did not know whether it referred to molasses or what it was; but I am beginning to understand that a liquid security, as the term is used, is a note that matures quickly, so that, for instance, you go to a Federal reserve bank and want money and you have $100,000 of notes, all maturing within 45 days, and you put them up with the bank and you get your $100,000. In 45 days, if those securities are all good, the bank that lends the $100,000 has collected from the country on those notes $100,000 and is therefore whole.

Mr. FRAME. Yes.

Senator REED. Now, it is urged here by many very eminent financiers that you must have a short-time note in order to have this quick return of the money, and therefore, you can not use the farm mortgage and you can not use a State bond because they run for a long period of time. What do you say about that?

Mr. FRAME. I do not think it is necessary.

Senator REED. Why not?

Mr. FRAME. For the very reason I just pointed out.

Senator REED. That is where you took it and sold it. This bank did not want to sell.

Mr. FRAME. I did not sell the bonds; I simply put them up as collateral security and got the money.

Senator REED. You went to somebody who had it?

Mr. FRAME. Yes.

Senator REED. Your man had to wait until he either sold the bond again or you paid the loan to get his money? He had to be able to carry it himself.

Mr. FRAME. I paid the money within 90 days. If I did not pay the money within that time of course he could have sold my securities and got the money back.

Senator REED. Mr. Frame, I have this thought as to this question of liquidity, if I may use that sort of a word. I might as well make a word as anybody else. I want to follow this transaction: A man takes $100,000—you take $100,000 and go to Senator Owen, who is president of one of these reserve banks, with $100,000 of notes, maturing within 45 days. You put up those notes with Senator Owen and he gives you $100,000, and he goes to the Government of the United States and gets $100,000 of money issued to him and puts these notes up with the Government of the United States, or he puts them up with the reserve agent, and in 45 days those notes are all paid off and he is able, because they are paid off, to liquidate his debt with the Government and take up $100,000 of paper. I see that transaction very clearly.

Now, suppose that you bring to him instead of that a State bond for $100,000, which is due in 20 years. You deposit that with him. He goes to the Government of the United States and gets $100,000. Does not that fact make that bond liquid? The fact that you can cash a long-time security or get the Government's money upon a long-time security makes it as liquid as any possible security for the time being? You get the money on it?

Mr. FRAME. That is, accepted as collateral.

Senator REED. We are assuming that the Government takes it as acceptable.

Mr. FRAME. Yes, sir:

Senator REED. He has let you have $100,000, and with that $100,000 you are able to keep your bank open and you begin to collect on the short-time paper you have in order to pay him back, and you have $100,000 of this short-time paper in your bank and you collect it in; and when you have it in 45 days you go and pay him off. Why is not that just as liquid an arrangement as it would be if you took the short-time paper in the first instance? I want to know if I am sound in my reasoning?

Mr. FRAME. I think the Aldrich-Vreeland Act really covers both of those points.

Senator REED. I am not speaking of the Aldrich-Vreeland Act, I am not speaking of this or any other bill, I am trying to find out whether this is an insuperable objection which has been so often raised; namely, that we can not take long-time paper because it is not liquid.

Mr. FRAME. I do not think it is an insuperable objection.

Senator REED. Of course, long-time paper is not instantly liquid. The moment, however, you provide a place where you could always get the cash on the farm or the Government bonds, or the State bonds,

the moment you provide a place where you can always get the money on it, does it not then immediately become liquid?

Mr. FRAME. In putting up mortgages on country farms the difficulty would be that the central bank or even the Federal reserve bank officials could not know as to the reliability of this security.

Senator REED. I am not talking about the reliability; I am not talking about the length of the term of the obligation. I am simply discussing the one question of whether they are liquid or not, and the point I have in mind is this—I will state it and see if you agree with me: We will take, for instance, a State bond running for 20 years. It can not be collected until the end of 20 years, and therefore it is a very rigid thing in itself; but if by law you make a provision whereby that bond can be cashed at any time, it then becomes the most liquid security in the world, does it not?

Mr. FRAME. Yes, and would be a secondary reserve, you might say, for a bank to hold.

Senator REED. The answer, then, would be that the Government would have these things loaded upon it, and the Government has to carry it for all those years; but assume that you put that bond up with the reserve banks and the reserve banks went and got the money from the Treasury. Suppose they got $100,000 and gave it to you, and you took it and put it in your bank vaults. Then, having that $100,000 to do business with, but having an obligation to this central bank to return the money within a given time or to pay a heavy rate of interest, which would compel you to take it up, you would proceed to collect on your short-time paper yourself and pay it, would you not?

Mr. FRAME. Yes.

Senator REED. Why, therefore, can we not use long-time paper as well as short-time paper as the basis for the issuance of money?

Mr. FRAME. We can. But in fact, currency is issued on the credit of the issuer. The issuer simply discounts time paper. It is a fallacy to say currency is issued secured by commercial paper.

Senator REED. That is the point I asked the committee to consider, and I wish they would think about it, because it seems to me perfectly patent that all this theory that you can not possibly take anything but short-time paper is a mistake. I will put it that way, using a gentle method of speech.

Senator BRISTOW. Senator, before you leave that question, I would like to ask Mr. Frame a question or two. It is right on this point. I would like to ask you, Mr. Frame, in respect to the farm mortgage. You said the reserve bank which was discounting the paper might not have knowledge as to the value of those mortgages in the community. Knowledge as to the value of those mortgages would be just as reliable as the knowledge as to the value of any short-time paper that might be given in that community, might it not?

Mr. FRAME. Oh, yes, if it was local paper; but of course this bill requires really more than local paper.

Now, on that question of taking local paper, if we should take a piece of paper from our customers and rediscount that and send it away, when that paper is returned and paid by the borrower the question would be raised——

Senator BRISTOW. You think it would not be a practical thing to do?

Mr. FRAME. I think not on general country loans. Of course your bill does not really cover that. What you want to do is largely on bills of lading and great commercial and manufacturing corporations, etc. That is all right when you hold up the standard to an extremely high scale.

Senator BRISTOW. It is not contemplated to use local paper, but commercial paper of a different kind. Would that include the paper of concerns like the Armour Packing Co., John Wanamaker & Co., and concerns of that character?

Mr. FRAME. I should say yes.

Senator BRISTOW. The bills of lading paper, then, would refer to a paper that has the bill of lading attached, so that the money is paid before the article, whatever it is, is delivered?

Mr. FRAME. Suppose the shipment is of cotton; a draft is drawn upon Great Britain, with that bill of lading attached to it. The holder has no trouble in going to the bank and getting the money on it. That paper is the highest class of paper of commercial character that we have in the country.

Senator BRISTOW. How many country banks handle that class of paper?

Mr. FRAME. Oh, they are so few that they are inconsequential.

Senator BRISTOW. What other kind of this prime paper is there except this that has a bill of lading attached, say, for a shipment of cotton?

Mr. FRAME. Well, you might term prime paper such as that of Swift & Co., of Chicago, and others you named. Of course, more or less country banks hold moderate quantities of such paper at times.

Senator BRISTOW. Do they hold Armour's also?

Mr. FRAME. Armour's do not sell very much paper.

Senator BRISTOW. They have done it, though, have they not? We have had it in our country a good deal, I know.

Mr. FRAME. They do not make a practice of selling it openly.

Senator BRISTOW. They do not?

Mr. FRAME. No, sir; not as I understand it.

Senator BRISTOW. This prime paper is the paper of these commercial concerns in these great centers?

Mr. FRAME. Yes. The small country bankers take care of their own customers at home without much difficulty.

Senator BRISTOW. I thought there was something behind this commercial paper that we have been hearing so much about here from these great financiers.

Senator POMERENE. In connection with what Senator Bristow brought out a moment ago, you made the statement that your customers would enter a protest if they found, for instance, that you had rediscounted their paper in a reserve city?

Mr. FRAME. Yes; or elsewhere.

Senator BRISTOW. Is not that because of the fact that under the present banking system rediscounts are in disrepute, and it is one of the defects of this so-called independent banking system? Suppose, on the other hand, that this method is adopted provided for in this bill. You have your regional banks, and perhaps their greatest function, at least one of their greatest functions, is with the funds they have to rediscount paper. Here is a governmental

organization made up by interdependent banks for a particular purpose, and would it not to a large extent do away with that prejudice which the customer might have against his paper being rediscounted, when he knew that a large part of your funds were in this one reservoir?

Mr. FRAME. No; I think not. I don't think it would make any material difference.

Senator REED. There are two objections, as I take it, to the matter of rediscounting. One is that when a bank goes to heavily discounting it is a sort of notice that it is short of money, and that in a way hurts the bank. That is one objection, is it not?

Mr. FRAME. Yes; when done moderately the general public do not pay any special attention to it.

Senator REED. There is an objection of an entirely different character on the part of the man who borrows the money through a bank. He rather resents the idea that his note has been "hocked" about?

Mr. FRAME. That is it exactly.

Senator REED. And his note has been exposed?

Mr. FRAME. Yes, sir.

Senator REED. And in addition to that, when that note is in your hands, if he does not meet it on the exact date, he rather looks to you to be kind of nice about it, but if it gets——

Mr. FRAME. He looks for renewal.

Senator REED. Or an extension or some concession. But if it gets into the hands of a bank 300 miles away, then he knows that when he gets his notice that the spot cash has got to be there?

Mr. FRAME. That is what he knows.

Senator REED. And that is an objection the customer would raise?

Mr. FRAME. Yes, sir.

Senator REED. And dealing with the man in your community, where I suppose you know everybody by name, etc., the personal equation enters very largely into your transactions?

Mr. FRAME. It certainly does.

Senator REED. On both sides of the counter.

Senator POMERENE. Some of these borrowers are very proud of the fact that their notes will be received around over the country?

Mr. FRAME. I do not think they are to a great extent.

Senator REED. I never knew of their having much pride in that.

Senator POMERENE. I have known some of them.

Senator REED. Mr. Frame, when a bank keeps a reserve, whatever its reserve is, it loses all interest upon it. It is lying there idle?

Mr. FRAME. If in cash.

Senator REED. If in cash, and if it is not in cash it is not a reserve within a meaning we have heretofore attached to it—a reserve is supposed to be cash on hand, is it not?

Mr. FRAME. Or due from banks.

Senator REED. Due from banks. I want to leave that out, because I am going to speak about the real reserves. Of course when money is due from banks, if there is trouble in the country that is widespread, your reserves that you have got in another bank are liable to be hard to get just at the very time that you actually require it. That is true, is it not?

Mr. FRAME. That is what we want to doctor.

Senator REED. Upon the reserve that you have in the other bank you get very small interest, do you not?

Mr. FRAME. We get 2 per cent.

Senator REED. If you could make that 5 per cent, and have it absolutely safe, it would be a very profitable thing for the bank and very pleasing, would it not?

Mr. FRAME. We would be 3 per cent ahead.

Senator REED. If it could get 4 per cent, the same thing would be true, only not to the same extent?

Mr. FRAME. Yes.

Senator REED. If you could, instead of putting it in another bank and getting 2 per cent, buy a bond of the State of Wisconsin drawing 4 per cent interest and put that in your vault as a reserve, with the absolute assurance that you could go to a Federal reserve bank and turn that into cash in a few hours' time, you would not want to be depositing so much money in the other banks, would you?

Mr. FRAME. That is exactly what we do now, as a secondary reserve. As I say, we have $100,000 of bonds drawing a fair rate of interest—5 per cent—that is a secondary reserve. We are holding them as an investment.

Senator REED. While you are throwing light upon the question, you are not quite answering my question, which was, if you could, instead of being forced to deposit this money in another bank in order to get anything upon it in the way of interest in return, take it and invest it in a State bond of the State of Wisconsin that drew 4 per cent and put that in your bank, that would enable you to use that much more of your bank capital and get a better return on it, would it not?

Mr. FRAME. Allow me to explain that.

Senator REED. You would like to do that, would you not?

Mr. FRAME. Allow me to explain that.

Senator REED. Yes.

Mr. FRAME. We keep, say, $250,000 now in Milwaukee, Chicago, and New York banks as balances, against which we draw drafts every day.

Senator REED. You would still have to do that?

Mr. FRAME. We would still have to do that; and therefore that amount of money must be kept there to accommodate our customers in selling exchange. I had my cashier make an examination of how often that $250,000 was turned over, and, to my surprise, it was turned over every 10 days. We sell $250,000 of drafts on Milwaukee, Chicago, and New York every 10 days, so that it is necessary in the ordinary transaction of business to keep that there for that purpose.

Senator REED. Then, what you put in there and count as part of your reserve has another utility besides the earning of interest, to wit, you are able to draw drafts upon it and thus utilize it in your general business?

Mr. FRAME. Further; we should be able to get it if we want it, which we sometimes can not do.

Senator REED. What I am getting at is whether you could, by putting in your vaults as a reserve, in lieu of a portion of the cash,

long-time, gilt-edged securities, provided there was a means by which you could go and cash that security on the instant.

Mr. FRAME. To a small extent—to the extent in which I have pointed out here, I should say we could.

Senator REED. What is that extent?

Mr. FRAME. I said to the extent of, say, $36,000, which cash we could spare; $15,000 for capitalization, of the Federal reserve bank, and 1 per cent of deposits. The balance of the cash on hand we must keep under the law.

Senator REED. I am talking about changing the law.

Mr. FRAME. Changing the law so that we could have less cash on hand?

Senator REED. Yes; but having security of the character that I speak of.

Mr. FRAME. Then even reducing it lower than 5 per cent?

Senator REED. Yes.

Mr. FRAME. Well, just how far to go on a matter of that kind is problematical. In the United States, in a developing country—all developing countries—we must keep larger reserves than they do in old settled sections, like Great Britain, France, and Germany, which have been thoroughly developed for hundreds of years. I think that is a common principle that all practical bankers will accede to. Therefore, as to just exactly what each bank should hold is a pretty difficult proposition, because you take western bankers—they hold larger cash reserves than we do.

Senator REED. Let me put it to you in another way. I do not limit this to your bank, but to the banking system generally. In addition to the moneys which bankers keep in their vaults by way of reserves, and which they put into other banks, not only to represent a portion of their reserves, but for the purpose of keeping a deposit there against which they can draw drafts and obtain banking accommodations, is it not true that banks very frequently have money which they can not loan out on short-time paper, and they send it to these big centers?

Mr. FRAME. They do.

Senator REED. Where they receive a small rate of interest?

Mr. FRAME. Yes.

Senator REED. They send it to the bank because they can get a small rate of interest, and because they are supposed to be able to get it back whenever they need it?

Mr. FRAME. That is right.

Senator REED. As to that part of the money we are now speaking of, if they could invest it in long-time gilt-edge securities which drew a rate of interest of 4 or 5 per cent, and were able to cash those securities on the instant, would that not be a good thing for the banks?

Mr. FRAME. It probably would release some of the cash.

Senator REED. It would probably stave the congestion to some extent, would it not—reduce the congestion to some extent which we now have in the big centers?

Mr. FRAME. I think that would probably assist it somewhat.

Senator REED. So that the bank in the country would not be so dependent in a time of stringency upon the ability of the bank in the city to make good?

Mr. FRAME. Yes.

There is one point I want to call your attention to, Senator; that as far as our deposits are concerned they do not fluctuate much from January until December. We are in a State where our products are diversified. Sections like that where products are diversified, the deposits do not fluctuate up and down as widely as they do down South or in the undeveloped West. I know certain sections where deposits vary 100 per cent in the course of the year. Such a thing as that does not occur with us. In that case, you see, there would be the more difficulty about carrying out your proposition to the same extent that we might do.

Senator REED. You mean that in the case of these places where there is fluctuation?

Mr. FRAME. Wide fluctuation.

Senator REED. Why, if you can take this security and turn it into money?

Mr. FRAME. Providing if there was any profit in the operation. Of course, generally, there is a little margin of cost in all such transactions.

Senator REED. Either losing or gaining. I am speaking now about going to a Government bank.

Mr. FRAME. In that case there would not be any charge except for expressage.

Senator REED. Getting the face of it, paying, of course, an interest charge, if you had to borrow money upon it?

Mr. FRAME. That is rather a broad problem and quite difficult.

Senator REED. You spoke of a secondary reserve which you hold now in the shape of bonds?

Mr. FRAME. Yes, sir.

Senator REED. What do you mean by that, Mr. Frame?

Mr. FRAME. State and municipal bonds.

Senator REED. Why do you call it a secondary reserve?

Mr. FRAME. Simply because we can utilize it for just the purposes you are talking about.

Senator REED. In other words, you do now keep a part of your deposits invested in this class of securities?

Mr. FRAME. Yes, sir.

Senator REED. Because in the case of emergency you can go and get the money on them somewhere?

Mr. FRAME. Yes; 80 other national banks in Wisconsin do the same thing.

Senator REED. And you select them now without any aid from the Government?

Mr. FRAME. As a matter of prudence.

Senator REED. So that in the hour of trouble you are able to get money upon them?

Mr. FRAME. Yes, sir.

Senator REED. If the Government at this regional bank or at a subtreasury or any other plan that is devised would take those securities at their face, you would be all the more inclined to carry some of them, would you not?

Mr. FRAME. Sure.

Senator REED. And it would be a perfectly fine thing for the banking system, would it not?

Mr. FRAME. Perfectly natural that it would.

Senator REED. I want to ask a word or two more about this so-called high-class commercial paper that is supposed to be deposited under the provisions of this bill that we are now considering. I think perhaps we left that in an unfortunate situation. I do not think that you meant to say that the bill was so wrong, that the paper of large concerns, like Swift's, would be taken, and that alone would be considered as prime paper to the exclusion of giving it an advantage over other paper?

Mr. FRAME. Oh, no. I did not mean to exclude other paper. I give that as an illustration, merely.

Senator REED. A bill of lading with the draft attached or an acceptance attached is a very high-class security, and you nearly all get cash out of it?

Mr. FRAME. Yes, sir.

Senator REED. And you think that there would be accepted as high-class paper the paper of such large institutions as Swift's, because they are engaged in heavy commercial transactions, have a large amount of money flowing, I suppose, into their treasury every day?

Mr. FRAME. They have large capitalization.

Senator REED. But outside now of the bill of lading, money loaned upon bill of lading, and such institutions as Swift's, would you class as prime commercial paper——

Mr. FRAME. Notes of large merchants and manufacturers in the big cities. You could hardly call country paper "prime paper."

Senator REED. So that you think that under the terms of this bill, those assets which the country banks, particularly that class of country banks that are in the smaller places, would hardly be acceptable as prime paper?

Mr. FRAME. I do not.

Senator REED. Do you think that it is excluded by the terms of the bill, or do you think that the financial conditions are such that they simply could not avail themselves of it?

Mr. FRAME. I think that it is not necessary that they should. Our present central reserve banks can take care of us amply and they do take care of us.

Senator REED. That is to say, if there was a means provided by which the central reserve bank of St. Louis and of Chicago and of New York could take their securities in the hour of trouble and get money, they would be able to accommodate you as one of their customers?

Mr. FRAME. Yes, sir.

Senator REED. And therefore that there is no necessity of dealing with that bank at all?

Mr. FRAME. I do not think there is—not in the least, even not in emergencies, if the present reserve banks were cared for then.

Senator REED. You have spoken of an independent banking system. Does not the thing that you have just now outlined, while it might mean an independent banking system, using the term "system" with some emphasis, does it not mean, after all, a lack of independence by the individual members, because they would be dependent upon the reserve banks?

Mr. FRAME. That is just exactly one of the points that seems to me objectionable, to be compelled to put $147,000 into the Federal

reserve bank, not subject to call, not subject to use in any way, shape, or manner.

The CHAIRMAN. It is subject to call, however.

Mr. FRAME. Only through rediscounting. Now, if we have it in one bank and that bank is not willing to accommodate us, if the business is unsatisfactory to us we transfer it to another one. That is democratic. We are not compelled to do business anywhere, at one bank, if it is unkind and if it is unfair to us in any way. We simply transfer our account to some other bank.

Senator POMERENE. By reason of that very fact, in 1893, you had to take your securities down to Chicago and sell a part of them?

Mr. FRAME. Yes, sir; and that is just exactly what I want to provide against. If you will provide some measure of relief for present reserve banks they will not be compelled to suspend cash payments. Our balances will always be at our command.

Senator REED. Let me get you right, because that is what we want. You say that we have got three central reserve cities, and if there was a scheme devised by which in the hour of stringency those banks of the three central reserve cities could take their reserves and go to the Government and get more money, they would then have enough money to supply you as their customers?

Mr. FRAME. Yes, sir.

Senator REED. And if you did not like to do business with the First National Bank of Chicago, you could go right over to the Second National Bank of Chicago, if there is such a bank?

Mr. FRAME. The Continental.

Senator REED. The Third National Bank or the Continental National Bank and get your money there?

Mr. FRAME. That is right.

Senator REED. Is not that giving special and peculiar advantage to the banks of these large cities?

Mr. FRAME. In what respect?

Senator REED. Well, they alone of all the banks in the country have the privilege of going to the Government and getting this aid. Why should not that be extended out, so that the banker of Milwaukee and even of Waukesha might go and get that aid directly without having—you used the term "skimming" a while ago, and I am familiar with that—without having the skimming process applied to them?

Mr. FRAME. That is what I called the "branch system" or "skimming process," which I have not referred to yet. I do not object to it at all, because if there is competition between those banks as to getting accommodations, or if one bank does not serve me satisfactorily I will go to another one. That is the free and independent banking system. Under the branch banking system or the Scotch and other foreign banking systems—take Canada, for instance, which has 25 great centralized banks and has nearly 3,000 branches. All the branches do business with its parent bank. Every one of the branches does business with the parent institution.

Senator REED. Is that centralized institution Government controlled?

Mr. FRAME. No, sir.

Senator REED. Is it privately owned and privately controlled?

Mr. FRAME. It does as it pleases—plays just as it pleases, without any Government jurisdiction at all. The report of the Monetary Commission shows that there has been $5 of losses, comparatively, to depositors in Canadian banks as against $1 loss in the United States.

Senator REED. It takes into consideration volume in each instance?

Mr. FRAME. It takes into consideration the volume, of course.

Senator SHAFROTH. Do they include all banks, both national and State, or only national?

Mr. FRAME. Just national.

Senator REED. Let me understand that. There is a great bank and it has numerous branches.

Mr. FRAME. Yes, sir.

Senator REED. Those numerous branches are owned by it or are simply in alliance with it?

Mr. FRAME. They are all owned by the banks in Quebec, Montreal, and Toronto. I think the headquarters are all in those three cities.

Senator REED. And no other banks exist?

Mr. FRAME. Practically no others.

Senator REED. So that if a man wants to borrow money now he has got just one bank to get it from?

Mr. FRAME. Canada has 25 central banks which have, say, 3,000 branches, therefore these 25 banks are practically a great monopoly.

Senator REED. In cities where there is a branch of each one of these different banks?

Mr. FRAME. Yes.

Senator REED. Do they engage in some rivalry?

Mr. FRAME. More or less.

Senator REED. Instead of having 3,000 or 4,000 independent banks, each acting for itself, it results in your having in the Dominion of Canada 25?

Mr. FRAME. Just 25.

Senator REED. And, of course, they are widely separated, or at least their branches must be?

Mr. FRAME. Oh, they are scattered all over the country.

Senator REED. The branches are scattered all over the country, but the 25 banks must be remote from most parts of the country?

Mr. FRAME. There are not as many banks in Canada by far as there are in the United States. There are eight banks in the United States where there is one over there, as far as territory is concerned, because the territory of Canada is just about equal to that of the United States. We have over 25,000 banks, and they have only about 3,000. No bank can start there with less than half a million dollars capital.

I made an address before the State Bankers' Association of Oklahoma last May, and I gave an illustration of what the branch banking business of Canada would do to Muskogee if they had the branch banking system there. The capitalization of all the banks in Muskogee is about a million and a half dollars. The profit on that, at 6 per cent, is about $90,000. Those banks pay out about $30,000 a year taxes to the city; total, $120,000. Under a branch banking system such as they have in Canada there would be three or four branches of centralized banks in New York, Boston, Philadelphia, or Chicago, and every dollar of the profits that were made in the city of Muskogee will be turned into those centralized institutions and Muskogee would

lose every dollar of it. As Canadian branches pay no taxes on stock, the city would lose that also.

Senator REED. That is what you call "skimming"?

Mr. FRAME. I call that "skimming the cream" from the country.

Senator POMERENE. Stockholders do not live in Muskogee?

Mr. FRAME. That is just where they do not live. In Canada the great bulk of the 25 banks are owned and controlled in London, Liverpool, Glasgow, of course including Quebec, Montreal, and Toronto.

The CHAIRMAN. Moreover, these 25 banks can have a gentleman's agreement about the conduct of business, and most of them do?

Mr. FRAME. I think they do, more or less.

Senator REED. What is to hinder the 12 reserve banks or the 1 reserve bank that we propose to establish, which embraces some 600 or 700 independent national banks within its jurisdiction, effectuating a gentleman's agreement through that very organization which will fix the interest rates and practically settle whether certain lines of securities can be accepted within the vast domain in which that bank is situated?

Mr. FRAME. I think there is a probability of a thing of that kind with supervision as provided. We have ample supervision now, under present conditions. That is why I say we have the best banking system in the world, notwithstanding it has some defects. A great big centralized organization having general care over all of them seems monopolistic. I have fought against what I believed to be a kind of a monopolistic management under the Monetary Commission bill. I have not believed in that, because I think if the great big centralized banks of the United States, to quite a material extent, wanted, under that bill, to so conduct things that they could regulate us and do just about what they pleased with us. I prefer to stay just as we are now with the general supervision of the Comptroller of the Currency.

Senator POMERENE. You mean the Aldrich banking bill?

Mr. FRAME. The Monetary Commission bill.

Senator REED. What I want to get at is this, and I want to get at it just as it is in your opinion. Let us say that there is a regional reserve bank organized at Chicago, and that your State is put into that reserve district, along with two or three other States, and you bankers meet to elect the three directors that the bankers select, and then you select the three outsiders who are not bankers, but who may be stockholders, and now you have got a board of directors of six elected by the bank, and three selected by the Federal Government, making nine, but a two-thirds majority are bankers' men. Then, there is a president selected by this board of directors. Do you think that the big banks or the little banks are going to control in the selection of those members of the board of directors, which will be selected by the banks?

Mr. FRAME. I think those little fellows will have little to say.

Senator REED. You think the big fellows would get it?

Mr. FRAME. Almost certainly.

Senator REED. Let us see why they would get it. Have they any such power recognized to-day by virtue of their financial ability and strength to enable them to control or influence the votes of the member banks when they come to have an election?

Mr. FRAME. They would more or less. The little bank would not spend the money to look after matters of that kind, but the big banks would.

Senator REED. So you think the big fellow would get the six directors?

Mr. FRAME. I think he would.

Senator REED. Of course, the man who gets the board of directors gets the presidency?

Mr. FRAME. It would be natural.

Senator REED. I want to know if, in your opinion, this sort of thing would be likely to happen. Of course that president and that management of that central bank would naturally want to make banking profitable and safe, would it not?

Mr. FRAME. It naturally would result that way; that is human nature.

Senator REED. Do you think that by reason of this bringing of the banks together in this way and under this scheme there is any danger of the same thing happening as happens when there is what is called "a gentleman's agreement" between insurance companies, for instance, or railroad companies? That is to say, a result worked out by which there would be a regulation to some extent of interest charges, charges for its exchange, of interest paid upon deposit, etc.?

Mr. FRAME. I think when you go down into details of it it is a pretty clear proposition. Interest rates are different in different sections of the country, and that question of fixing a rate of interest which is uniform or for any section of the country, that is a practical impossibility, except for the concern that the board of directors are in control of. The law of supply and demand for money regulates the rate of interest.

Senator REED. What I want to get at, Mr. Frame, is this: You are a practical banker, have seen these things in operation; that is, you have seen the system in operation. I want to know if there is any danger, for instance, if I was elected president of this central bank, of my being able by virtue of that position to influence the conduct of the member banks so that they might do business in a way that would be more profitable to them and a little harder upon their communities?

Mr. FRAME. The trend would be in that direction.

Senator REED. Would it tend, in your opinion, to strike down or lessen competition between the banks?

Mr. FRAME. I think it would. I think that would be a natural result.

Senator REED. If we had a control, great or small, exercised by each president of these 12 regional banks, tell me whether you think there is any danger of the same kind of control being exercised over all of the regions by the great financial institutions?

Mr. FRAME. I think the trend would be in that direction.

Senator REED. At the present time is it or is it not true that the very wealthy concerns of the country, the great bankers of the country, have interests in large numbers of banks scattered over the country? I will put it in plain language. It has been asserted to me that the Rockefeller interests control, have potential influence in, a chain of banks across the country. I do not know whether it is true or not. It has been asserted to me that the Morgan interests—

the Morgan banks, speaking of them in that broad way—are not limited to New York City, but that they have a potential influence in chains of banks extending out into the country.

Senator SHAFROTH. By owning stock in the same?

Senator REED. In one form or another. What about that?

Mr. FRAME. So far as my own experience of 50 years is concerned, we have run the Waukesha National Bank without any dictation or suggestion on the part of anybody.

Senator REED. You run your own bank?

Mr. FRAME. Yes.

Senator REED. I am speaking about whether they do have in the large cities—whether there is already in existence in the country—a sort of chain tying together certain banks out in the country, and that chain ending for its control with these large institutions in New York.

Mr. FRAME. As to what extent that may go, I could not say, but I think if we had a kind of combined organization instead of the independent mechanism that it would be worse; that is all.

Senator REED. The thought I had in mind was this: Whether now these great institutions of the East, assuming that they do have their branches or institutions in which they have some capital invested so that they have a control——

Mr. FRAME. As stockholders.

Senator REED. As stockholders or otherwise—would be able to possibly influence the selection of the directors of these regional banks?

Mr. FRAME. I think they would, to a certain extent. Just to what extent I could not say. It would be perfectly natural.

Senator REED. I have been told, for instance—a sort of general talk—that in my State there are several large institutions in which New York money is invested.

Mr. FRAME. Which dominates largely.

Senator REED. And to some extent dominates; and because of their relations with New York they are able to exercise some advantage over other banks. Those banks have been named to me. I am not naming them here. But I am perfectly sure that the prominence of those bankers is such to-day and their dominating influence is such to-day in my State and in the surrounding States that if there was a regional reserve bank established to-morrow in that country and Missouri was in it some one of those gentlemen would be a director, if not president.

Mr. FRAME. Yes, sir.

Senator REED. I speak of it that way not to get from you a certain answer, but I want to know to what extent you think a danger of that kind possibly exists, if at all.

Mr. FRAME. I think that would be the natural trend. I do not think there are any banks in Wisconsin that are dominated by Wall Street.

Senator REED. As far as Wisconsin is concerned, it is an old settled State, and as a matter of fact you have got in a pretty independent position financially, speaking of the State as a whole; is that true?

Mr. FRAME. That is correct.

Senator STONE. It is practically a lending State?

Mr. FRAME. Yes.

Senator REED. More than a borrowing State?

Mr. FRAME. Yes, sir; the people of the State of Wisconsin have surplus funds, and are lending them in outside sections.

Senator REED. I do not care to take more time now.

The CHAIRMAN. Mr. Frame, I want to ask you one or two questions.

Mr. FRAME. Yes, sir.

The CHAIRMAN. Did you see the book that was sent out by the National City Bank of New York with Mr. Vanderlip's letter or Mr. Talbott's letter, etc.?

Mr. FRAME. I do not remember to have seen it.

The CHAIRMAN. Do you know whether or not that book was sent to each of the banks in Wisconsin or to any considerable number of them?

Mr. FRAME. Well, I can not remember to have seen it myself, but I have been exceedingly busy, and possibly it may have come and I did not see it.

The CHAIRMAN. Have you not heard anything about that publication being distributed in Wisconsin?

Mr. FRAME. Just what do you refer to particularly?

The CHAIRMAN. A book issued by the National City Bank in opposition to this bill, containing a letter of Frank Vanderlip and Mr. Talbott and others.

Mr. FRAME. I do not remember to have seen it.

The CHAIRMAN. You do not know anything about it?

Mr. FRAME. No; I do not. I can not recall that I have seen it.

The CHAIRMAN. You spoke of the earnings of the banks of Wisconsin, and I call attention to the report of the Comptroller of the Currency, Table No. 59——

Senator POMERENE. What year, please?

The CHAIRMAN. Ending July 1, 1912; in which he gives the earnings of the banks of Wisconsin upon their capital and surplus of 8.87 per cent, and of the banks of Milwaukee 9.39 per cent, and the actual dividends on the capital paid 11.50 per cent.

Senator POMERENE. In the State?

The CHAIRMAN. In the entire State of Wisconsin; and 9.39 per cent of dividends paid on the stock of the banks of Milwaukee.

Mr. FRAME. Total in the State, 8.87?

The CHAIRMAN. 8.87 was the earnings on the capital and surplus.

Mr. FRAME. Capital and surplus.

The CHAIRMAN. But the capital of the Wisconsin banks was $11,000,000 and the surplus $4,500,000, so that it would be a much higher percentage on the capitalization?

Mr. FRAME. Yes.

The CHAIRMAN. The banking system of the United States shows a dividend on the capital of national banks of the entire United States of 11.66 per cent for 1912.

Mr. FRAME. On capital?

The CHAIRMAN. On capital; yes.

Mr. FRAME. But you see the surplus is nearly equal to the capital.

Senator REED. One other phase of this matter occurs to me, which is not clear in my mind. I am referring now to your paper. You told us that under this bill the banks of the central reserve cities would be required to keep less reserve than now, and as I under-

stood you that reduction in the amount they are required to keep at the present time would more than equal the amount they are obliged to contribute to the central banks. Is that correct?

Mr. FRAME. I understand that to be the case.

Senator REED. But when you get to the ordinary reserve banks does the same condition exist?

Mr. FRAME. The ordinary reserve bank, general reserve banks, must put up $150,000,000 in excess.

Senator REED. Of that amount?

Mr. FRAME. Of the amount that the reduction of the reserve would save them.

Senator REED. But when you get to the country banks, what is the condition there?

Mr. FRAME. Well, it costs us $285,000,000.

Senator REED. Of course you give it to me now in figures. Can you give it to me in percentages—that is, the percentage of cost?

Mr. FRAME. Percentage on what?

Senator REED. Well, it is a little difficult for me to state that, Mr. Frame. What I mean is this: I want to get a comparison of the inequalities, if such there be, in percentages, instead of in the aggregate, because the country banks having more capital than the——

Mr. FRAME. General reserve banks, and also the central reserve banks.

Senator REED. Reserve bank, that is right, or the central banks. Of course, when you say that it costs them so much money to go into this, it does not mean anything unless I know the percentage. To start with, the central reserve banks are relieved, according to your opinion, of any burden by reason of this bill. In fact, they are relieved from some burdens that they now have by virtue of the circumstance that the amount of their reserves required to be kept under the bill is so much less than it is now that they can take from that saving enough money to help capitalize—do their share toward capitalizing—the regional reserve bank, and then have something left in addition, that is released to them?

Mr. FRAME. The three central reserve banks are allowed to hold 7 per cent less of their deposits. That gives them a loaning power that can be realized of $140,000,000.

Senator REED. You mean 7 per cent after they have contributed to the organization?

Mr. FRAME. No; they have got to contribute $108,000,000 to the organization.

Senator REED. How much per cent does this leave them?

Mr. FRAME. It leaves them $32,000,000.

Senator REED. That would be a small per cent.

Mr. FRAME. Per cent on capitalization or percentage on deposits?

Senator REED. On deposits.

Mr. FRAME. On deposits, a little over 1½ per cent.

Senator REED. So that they actually come out 1½ per cent net to the good.

Mr. FRAME. Ahead, except what may be called from country and other banks out of them for deposits which are now held by them which would have to go to the Federal reserve bank, and that I do not know.

Senator REED. You do not know how much that would call?

Mr. FRAME. I do not know what that would be.

Senator REED. When you come to general reserve banks, how much percentage do they have to contribute over and above what they are now required to keep?

Mr. FRAME. On deposits, about 7 per cent.

Senator REED. Over and above what they are required to keep now?

Mr. FRAME. It would take out about 7 per cent of their deposits—on $2,250,000,000, say, $150,000,000.

Senator REED. That is to say, when they put this money into this regional reserve bank, although there has been some reduction in the reserves they are required to keep, still they are 7 per cent——

Mr. FRAME. Short.

Senator REED. Worse off as far as the actual good of their own money is concerned.

Mr. FRAME. Yes, sir.

Senator REED. They have got to contribute that much.

Mr. FRAME. And then, in addition to that, they may be called upon by banks like ourselves, for instance, to withdraw out of Milwaukee and Chicago.

Senator REED. Coming to the country bank, what is the situation there in percentages?

Mr. FRAME. The net $285,000,000, something over 7½ per cent deposits.

Senator REED. So that if I get you right now, this bill as it is now drawn will actually release to the central reserve banks——

Mr. FRAME. One and one-half per cent.

Senator REED. It is no burden to them at all, but is an advantage in that one respect that we are now talking of?

Mr. FRAME. Yes.

Senator REED. Whereas when you come to the other classes of banks they have to put in from 7 per cent over and above.

Mr. FRAME. From the general reserve banks 7 per cent, and 7½ from the country banks.

Senator REED. In other words, those banks outside of the central reserve cities have to capitalize this regional reserve system?

Mr. FRAME. Really, that would be the case; that is the way I figure it.

The CHAIRMAN. Mr. Frame, the report of the Comptroller of the Currency of June 4, 1913, shows net deposits of the 52 banks in the central reserve cities, upon which they are required to keep reserves, of only $1,568,000,000, and required reserve of $392,000,000, with legal tender and gold coin of $405,000,000.

Under the new bill 9 per cent would be kept in their vaults, or 140 millions. Four and one-half per cent must be kept in the Federal reserve bank, or 70 millions, and 4½ optional, which may be kept in their own vaults or in the Federal reserve banks, at their pleasure?

Mr. FRAME. Yes, sir.

The CHAIRMAN. Therefore, would it not be true that with the cash kept in their own vaults of 140 millions, and assuming that this 4½ per cent option would be divided, one-half being 70 millions, which would mean 35 millions going into their own vaults, and you would make a maximum of 175 millions in their own vaults and 70 millions, plus the 35 millions, or 105 millions, in the Federal reserve

bank. Would not that be a correct calculation? Or can you not easily follow that?

Mr. FRAME. I have lost a little of the chain, Mr. Chairman.

The CHAIRMAN. Perhaps it would be better for me to make a mere statement of this matter for the use of the committee, because that is really all I want to do; that is the best way to get at it and to ascertain the real facts in regard to it.

In the record will be found a table showing the exact requirement of this bill, following the statement of Mr. Berry of yesterday, showing that the total requirement of the 52 banks in the central reserve cities would be 216 millions, against 405 millions, leaving a surplus available of 189 millions of cash, in legal tender or gold, every dollar of which is due to the country banks if the choose to call upon it for their use; and therefore the theory that the city banks would get an extraordinary advantage over the country banks is not really tenable. The country banks, by this statement of June 4, 1913, had 3,610 millions of net deposits subject to the reserve requirement, and the further requirement of 541 millions, and they had in specie and legal tender 266 millions. With the reserve cities they had 446 millions of dollars subject to their check. Therefore they could take, if they desired, every dollar of this 189 millions for use; but under the terms of this bill there is only required a maximum of 103 millions. So that they can not really require gold upon this open account which they have with the central reserve cities for so large a sum.

This statement proceeds upon the theory of this bill that the funds which are placed in these Federal reserve banks are loaned to the extent of two-thirds, and presumably would be loaned to the extent of 50 per cent, keeping 50 per cent average reserve for conservative management, with these alternatives open, and remembering that the Government of the United States will place a large amount of current funds in gold coin and legal tender and actual money in those banks, also subject to be loaned out up to two-thirds.

Mr. FRAME. In the Federal reserve banks?

The CHAIRMAN. In the Federal reserve banks. It would afford a surplus of actual cash for the country of an approximate total of over 200 millions, which would be loanable, if this money was in the reserve cities, on a basis of 18 per cent, which needs an expansion of credits of 4.55 per cent upon that amount. If it was in the country banks, where the maximum requirement is only 12 per cent, it would then multiply itself by seven times. and the expansion of credits would be very important; and of those expansions of credits the country bankers would get their proportionate part, and it would appear first as loans, then as deposits, so that the country banks would have a very substantial increase of deposits and of current loans of which they would be the immediate beneficiaries.

That answers your conclusion, and I do not care to cross-question you, because it is a mere matter of mathematical calculation that is so obvious a matter of mathematics that no human opinion will affect it one way or the other. It is a matter for an actuary to pass on.

Senator REED. Do I understand you, Mr. Chairman, to say that, speaking now of the central reserve cities, there is not such a reduction in the amount of their reserves required to be kept that it more than equals their contribution to the regional reserve banks?

The CHAIRMAN. No. What I said was that the actual calculation, under this bill, would free in the 52 banks of the central reserve cities $189,000,000, every dollar of which could be used by the country banks, because they have on deposit subject to their check a very much larger sum.

Senator REED. Yes; but they use that money that they have subject to their check, as stated by Mr. Frame, constantly in their business.

The CHAIRMAN. Oh, yes; they get 2 per cent on it. The amount which they actually have is $496,000,000 on open account, which is far more than any possible demand for exchange purposes that you have in mind.

Senator REED. I understood Mr. Frame to say that his bank has a quarter of a million of dollars in these large cities, and that you actually use it to such an extent that you turn it over every 10 days.

Mr. FRAME. Yes, sir.

Senator REED. Could you reduce that without interference with your business?

Mr. FRAME. I should think only to a moderate extent. One banker of Milwaukee told me that his bank sometimes drew drafts for its whole balance in one day from its New York correspondent.

The CHAIRMAN. Of course, these exchanges are turned over every day in these large cities.

Mr. FRAME. They are turned over much more rapidly than in the country.

Senator REED. The point I had in mind was this: It is a fair presumption that banks do not take their money and put it off in another bank unless there is a corresponding advantage. Of course, they get 2 per cent, or something like that, but they do not put that money in there to get 2 per cent.

Mr. FRAME. We keep it there because it is convenient to transact our business.

Senator REED. If your bank loaned a quarter of a million of dollars—you are not a very large bank, speaking in comparison with some banks—the question in my mind is whether all this money that is now in New York, Chicago, and St. Louis, the three reserve cities, is there because of the exigencies of business, and required to be kept there and if withdrawn will unsettle to some extent the business conditions. What about that?

Mr. FRAME. I do not think there is any reasonable doubt about it. Take the transfer of loans that are now made by Milwaukee bankers to customers, for instance. If country banks withdraw funds from the Milwaukee banks during the present condition of the money market in large sums as this bill requires I think it would bring distress to Milwaukee.

Senator REED. Could not the banks borrow it right back again?

Mr. FRAME. The Milwaukee banks might have the kind of paper that would be acceptable at the Federal reserve bank, but the country banks would have but little. Shifting of loans would bring trouble. Why should banks borrow back their own money?

Senator REED. You really think, now, that the country bank would not be able to produce the kind of paper that would be acceptable at the regional reserve bank under this bill, and thus get its money back?

Mr. FRAME. The trend of my answers would go to show that. Very few of the banks hold it.

Senator POMERENE. Your answers were rather categorical, yes or no, were they not?

Mr. FRAME. The most of them; but I enlarged upon them enough so as to show the trend of the general thought.

Senator POMERENE. I want to ask you a question or two, unless you had something else to say on that subject.

Mr. FRAME. I have a letter here which I would like to put in, sir.

Senator POMERENE. Do you desire to read it as a part of your answer?

Mr. FRAME. Yes. [Reading:]

FARMERS & MERCHANTS' UNION BANK,
Columbus, Wis., August 1, 1913.

Replying to your favor of recent date with regard to the Federal reserve bank bill (H. R. 6454):

We would not become a stockholder of the bank because we would have nothing to gain, and we do not believe the organization of a bank in accordance with the proposed bill would be of advantage to the country. We would have to carry at least $5,000 more cash in our vaults (and what we have been carrying we have found, over a period of 50 years, has been sufficient), which would virtually take that much out of circulation and upon which we would receive no interest. We would also have to deposit approximately $25,000 with the reserve bank without interest, and the total loss to us, at the rate of 2 per cent, would be $000.

Of course he keeps below the 5 per cent reserve.

The CHAIRMAN. That is very surprising, in view of the fact that he is required to carry less, and he now says he will have to carry more. As a witness I think he has——

Mr. FRAME. Spoiled his case?

The CHAIRMAN. Well, go ahead.

Mr. FRAME (reading):

Banks located in agricultural communities like ours do not in the usual course of business receive notes and bills of exchange arising out of commercial transactions or make loans on United States, State, county, or municipal bonds. Neither do they have the opportunity of buying acceptances.

Our city bank friends claim they would not be benefited by the reserve bank, and we think they would suffer with us a proportionate loss of business and profits.

Very truly, yours, J. R. WHEELER, *Cashier.*

Senator POMERENE. Mr. Frame, I think I am safe in saying that the purpose of establishing the amount of the reserves provided here is to have a conservative amount. There may be some difference of opinion as to what that shall be.

Mr. FRAME. Yes, sir.

Senator POMERENE. Under the provisions of the bill as it passed the House—and, as I understand it, you have not read the whole of it—in country banks it is to be 12 per cent and in the city banks it is to be 18 per cent?

Mr. FRAME. Yes.

Senator POMERENE. Your position seems to be, briefly stated, that these reserves are higher than they should be. Do I correctly state that, or not?

Mr. FRAME. Higher?

Senator POMERENE. Yes.

Mr. FRAME. Those reserves of 12 and 18 per cent?

Senator POMERENE. Yes.

Mr. FRAME. No; I should think not.

Senator POMERENE. Are they too high?

Mr. FRAME. No; I do not think they ought to be any less. I think they ought to be at least that, because it gives generally better stability to the country—more confidence.

Senator POMERENE. I will make my point clear a little later. Do you think they should be higher than is provided for here?

Mr. FRAME. No; not unless it may be for the country banks. I think the 5 per cent is all right, but I think, as far as the city banks are concerned, it ought not to be less than 20.

Senator POMERENE. Everyone, I take it, will concede that during the transition period the reserves possibly ought to be fixed a little bit higher than what they would be after the system was finally established and in working order?

Mr. FRAME. Well, we keep now, although we are required to keep 15—all country banks keep an average of about 20. We keep more than the required amount. We naturally would keep more than the required amount under this bill.

Senator POMERENE. This is what I had in mind. Some bankers may be of the opinion that this reserve is too low. Others may be of the opinion that it is too high. The aggregate amount of the reserve will be determined, I take it, by actual demonstration later. Would there be any objection to giving to the Federal reserve board the power, in its sound discretion, to lower or to increase the amount of these reserves as the exigencies of the situation might seem to suggest?

Mr. FRAME. I think the bill now provides that if it runs below that there is a tax on it; and I think that is a very good proposition.

Senator POMERENE. That is only temporary. But suppose that in your judgment it ought to be permanently increased or permanently decreased, do you think there would be any objection to giving them that power?

Mr. FRAME. That is a pretty hard question to answer. If the board of control thought credit expansion was needed they might be inclined to cut it down a little too low. On the other hand, if it was a little over conservative they might raise it.

Senator POMERENE. I think we have a right to presume that this board, when appointed, will be just as well qualified and just as conservative in the transaction of the business of that board and can be relied upon as much as we rely on the judgment of the Supreme Court.

Mr. FRAME. I will not question that point.

Senator POMERENE. I would not have it otherwise.

Mr. FRAME. What I mean to say is that I do not think that all of the human family would think exactly alike on it. That is the only point I wanted to make.

Senator POMERENE. Some of us, particularly when we are defeated in a lawsuit, go out and swear at the Supreme Court of the United States.

Senator REED. And frequently are fully justified. [Laughter.]

Senator POMERENE. We feel so; yes.

Senator BRISTOW. One question, please. Do you think that the duty of passing upon the question of the business judgment like this is at all similar to the duty of a court in undertaking to interpret a statute?

Senator POMERENE. They are very much the same.

Senator BRISTOW. One is a question of judgment of business conditions; the other is interpretation of language.

Senator POMERENE. Not always. It is a question of fact, often.

Mr. FRAME. If you will allow me just one moment to explain Mr. Wheeler's low cash reserves. Country banks in the State of Wisconsin are allowed to loan money on mortgages. Their business is more rural than that of national banks. Therefore national banks have more of the commercial business and ought to keep larger reserves than the State banks.

Senator POMERENE. I think that is right.

Different views have been expressed here in the last few days upon the subject as to whether these reserve notes which are issued would be the obligation of the bank or the obligation of the Government. What is your thought on that subject?

Mr. FRAME. I think it is better if it is the obligation of the bank than of the Government.

Senator POMERENE. Why?

Mr. FRAME. Because popular clamor sometimes calls for expansion of a paper currency, and it is more difficult in that case to stop the calls than it would be if it was regulated by the board. I think the board, in regulating that business, would be more apt to be right about it than it would be under general clamor for more money. I would prefer to leave it with the board of control. I believe their judgment would be better than popular clamor.

Senator POMERENE. That does not answer the question.

Senator SHAFROTH. The question is whether it should be the note of the Government or the note of the banks?

Mr. FRAME. I think it ought to be the note of the banks and not of the Government.

Senator POMERENE. Then, you would have the bank the maker and the Government the guarantor?

Mr. FRAME. Perhaps that might be the case.

Senator REED. That does not make much difference, does it, between the Government making it and guaranteeing it?

Senator POMERENE. I am open to conviction; but I do not see any serious objection to making it the obligation of the Government, under the terms of this bill.

Mr. FRAME. I can not say that I would raise any material objection to it.

Senator REED. What I meant was that there was no difference in his answers, Senator.

Senator POMERENE. Oh. Another question that I would like your view upon: The success of this system, if adopted, is going to depend very largely upon the extent to which it will be adopted by the bankers throughout the country. That being so, do you see any objection to the provisions of the bill requiring the national banks to accept its provisions and to subscribe to the stock in the reserve banks?

Mr. FRAME. Yes.

Senator POMERENE. What is it?

Mr. FRAME. Because the bill requires, to my mind, more than the banks would be willing to subscribe to.

Senator POMERENE. That does not answer my question, as I understand it. I meant, assuming in my mind that the amount of stock which the law would require the bankers to take was a reasonable amount. Of course there is a difference of opinion; but assuming that to be so, is there any objection to the compulsory provision of the bill?

Mr. FRAME. Not within what might be termed reasonable limits; that is right.

Senator POMERENE. And would you not make it compulsory under those circumstances?

Mr. FRAME. If it was made reasonable there is no objection to it whatever.

Senator POMERENE. By so doing you would be more likely to insure the success of the system.

Mr. FRAME. If it is within reasonable bounds.

Senator POMERENE. So that the only question, then, that would be raised on that score, in your judgment, is as to whether or not the 20 per cent is a reasonable amount?

Mr. FRAME. I have not raised the question as far as the capitalization is concerned.

Senator POMERENE. I know you have not, but I have in mind objections which have been raised here by other witnesses.

Mr. FRAME. I see. No, as far as I am concerned, on that point I do not want to raise the question.

Senator POMERENE. Under the provisions of this act the only stockholders in the regional banks are the member banks. Do you see any objection, and if so, what, to the opening up of these banks so as to permit the public to take a portion of this stock in the regional banks?

Mr. FRAME. I do not see any objection to it whatever.

Senator POMERENE. Would there be any advantage to be derived from it?

Mr. FRAME. I can not see that it would make any material difference.

Senator REED. It would add more capital, would it not?

Mr. FRAME. Oh, it would in that case, if it was compulsory.

Senator POMERENE. But would it not be an advantage?

Mr. FRAME. I can not see that it would be objectionable. I would not object to it at all.

Senator POMERENE. That does not quite answer my question. You say it is not objectionable. But affirmatively, would there be any advantage so far as the public is concerned?

Mr. FRAME. No. If you will just cover the one point about taking care of us when trouble ensued, I think the banking system of the United States would take care of itself.

Senator POMERENE. We are trying to do that.

Do you think there is enough banking capital in this country now?

Mr. FRAME. I think it is ample. I think the expansion of credit to-day is ample, too. If you will allow me I will give you my reasons.

Senator POMERENE. I will be very glad to have them.

Mr. FRAME. The total wealth of the United States in 1890 was about 65,000 million dollars. If we leave off the word "millions" we will easier grasp it—65,000 millions.

Senator REED. How many billions is that?

Mr. FRAME. Sixty-five. In 1912 the total wealth had about doubled—130,000 millions.

Senator POMERENE. In 1910?

Mr. FRAME. No; 1912. That is a close estimate. In 1890 the banking power of the United States was 5,150 millions; about 5,000 millions. In 1912 it is five times as great, or 25,000 million dollars. While our wealth has doubled, the expansion of bank credits has quintupled. Therefore I think that we have expanded as far as is within reason and as far as our surplus capital will naturally permit. We are in a strained condition to a certain extent. As Sumner puts it, in his History of American Currency.

> Overspeculation is speculation which outstrips the capital of the country. When we lose our heads in the intoxication of our own achievements, look on currency anticipations, which are only fictitious capital, as if they were real, use them as already earned, build other expansions upon them, then we bring a convulsion and a downfall; sometime or other a liquidation must come * * * then credit breaks down and there must be a settlement, a liquidation, a dividend, a new start.

As far as the question of the overexpansion of credit is concerned, I think the foregoing statements prove that almost conclusively.

I have quoted Sumner. I do not know whether I can lay my hands on it or not, but Paul Le Roy Beaulieu, of Paris, France, lately declared that—

> The whole world's pyramid of credit was overexpanded.

He is considered the greatest authority in the world on economics.

Senator SHAFROTH. I would like to ask you a few questions.

Mr. FRAME. Just one moment, if you will allow me, on that question of loans. From the report of the Comptroller of the Currency for 1912 the loans and discounts, including discounts of all the banks of the United States, are about as follows:

Various classes of bonds (not Government), 4,500 millions; loans on real estate, 3,500 millions; general loans not quickly liquidated, 6,000 millions; prime paper, including bills of lading, 4,500 millions; total, 18,500 millions.

Prime paper, according to the report of the Comptroller of the Currency, is covered in about one-quarter of the total loans, and the other loans are in what might be termed, in the general acceptation of the term, not quickly liquidable. Therefore that indicates that we are in an expanded condition and not having a full amount of quick liquidable paper in the banks of the United States to-day equal to loaning powers. As far as Great Britain, France, and Germany are concerned, those banks have larger quantities of what might be termed quickly liquidable paper, because in those three nations they have exports and imports annually to the extent of about 10,500 millions of dollars a year; that is, to simplify it a little bit, nearly 1,000 millions of dollars a month of imports and exports from those three countries.

Senator POMERENE. Exports and imports combined?

Mr. FRAME. Yes; practically all of this bill of lading paper is discounted in those nations. This paper covers generally nations with

which they do business, because they have their tentacles scattered all over the world.

The sun never sets on Great Britain's flag, you know, and they have ramifications in all their different possessions. That being the case these nations have about 1,000 millions of dollars a month of paper that is quickly liquidable paper and paid when it is due. That paper we can not hold while interest rates abroad are lower than here. These nations have been building up surplus capital for centuries. Their surplus capital exceeds ours. Their rate of interest is therefore lower than it is here. The bills of lading that are issued in the United States for imports and exports almost invariably go over there because the rate of interest is a little bit lower than it is over here. When we become a creditor Nation, we can then turn the tide, but not before.

The question was asked of a gentleman yesterday about the rise and fall of the rate of interest of the Bank of England, and to my mind his answer was not what it should be. He said that it stopped progress. I do not think it does. When the bank of England raises the rate of interest a little above the normal rate in Great Britain, even one-half per cent above what obtains in France, Germany, or Amsterdam, this paper for export and import, with the bills of lading attached, instead of going into the English banks for discount will go over to those other nations, because they can get it for a half a cent less. The paper that is falling due in Great Britain is paid in cash, and the flow of gold will start from France, Germany, and Amsterdam over into London. It eases the money market just as automatically as water running down hill. When they have sufficient of that gold paid in on their bills that are due and payable they lower the rate again and get back into normal condition. France does the same thing; Germany does the same thing; and it is just simply transferring a little of their liquidable bills of lading—quick paper—into the other nations.

Senator SHAFROTH. Does not that, however, while it affects the gold one way or the other by raising the rate of interest, discourage enterprise in the country that is raising the rate of interest?

Mr. FRAME. No; not to any perceptible extent, because it is only temporary.

Senator SHAFROTH. It would depend on how long it is maintained?

Mr. FRAME. Of course, for the last year or two, while the war has been going on, it has had that effect to slow progress.

Senator REED. That does not stop it as much as it would to have a financial smash and have the bottom fall out of the whole currency system?

Mr. FRAME. No, sir. As far as currency expansion is concerned, in Great Britain, you know, the Bank of England can not issue a dollar of notes in excess of 90 millions of dollars, except if you deposit £5 in gold they will give you a five-pound note.

Senator REED. They are payable in gold or silver.

Mr. FRAME. They are practically a gold certificate. But 25 years ago, if you will remember it, the Bank of France had more than one-half of its total holdings in silver instead of gold. To-day more than three-fourths of its holdings are gold. The bank has been gradually slipping out, little by little, its silver, because it has depreciated in value.

Senator REED. In regard to this condition that you have described, that the currency is expanded as far as it is safe to do it, there are only two remedies in that event, and that is either to contract credit or else expand the medium upon which it is based. Is it not one of those two?

Mr. FRAME. Or just hold steady. If pace is accelerated, we might meet the fate of the *Titanic*.

Senator REED. It would not do to destroy any of that circulating medium upon which this credit is built, would it?

Mr. FRAME. It ought to be done with extreme caution, if it is done, and done very slowly. If it is done rapidly, it will produce a panic.

Senator REED. In your judgment, does this bill contemplate the retirement and cancellation of the bank currency without the substitution of any currency in its place?

Mr. FRAME. No, sir.

Senator REED. In other words, it means the retirement of $37,500,000 in the cancellation of that much paper every year?

Mr. FRAME. Five per cent per annum, unless the Federal reserve bank increased to the same quantity.

Senator REED. Do you believe that a permanent currency, such as the national-bank currency has been amounting to—750 millions of dollars—would be supplanted by this 30, 60, or 90 day paper and enough money issued on it to take its place?

Mr. FRAME. That is a hard question to answer. I think that my statements show that it is in direct competition with all of the banks in the United States for this class of paper. We want that class of paper if we can get it. The banks want the quick, liquidable paper first before they take other loans.

Senator REED. Yes; but do you believe that there would be a sufficient quantity of that kind of paper that would be taken and recalled every 60 or 90 days to keep permanently in existence 750 millions of paper to take the place of these bank notes?

The CHAIRMAN. It would enter into competition with the existing order of banks in doing it, for that very kind of paper.

Senator REED. Have you not shown by the present figures that you have just read that there is only 450 millions of that out now?

Mr. FRAME. Forty-five hundred millions.

Senator REED. There would be only a little more than half enough?

Mr. FRAME. There is only one quarter enough to go around now, for the banks of the United States to cover total loans and discounts.

Senator SHAFROTH. I would like to ask you whether you think there should be any more than 33⅓ per cent of gold back of these notes that are issued, the Treasury notes, under this bill?

Mr. FRAME. I should think it would be better if they held 50 per cent even. Of course that is a limitation not necessarily incumbent upon the managers to keep it that way.

Senator SHAFROTH. Do you think that this is as good a currency as the currency issued by the National Government upon a 50 per cent reserve with the power given to the Secretary of the Treasury and a direction given to him to maintain that parity at all times in gold and to sell bonds, if necessary, to keep it at a parity?

Mr. FRAME. I think my answer would be covered in the answer to Senator Pomerone, that it does not seem to me the province of a

government as a prudent political thing to issue currency, because public clamor sometimes calls for more than ought to come out. Look at it in France. If any of you have read Andrew D. White's Fiat Money in France, of experiences about a century ago, it will make that clear. I regret exceedingly, gentlemen, that I could not find that publication in New York. It is out of print. I wrote the Appleton Co. in regard to it. I wanted to have a copy, because I think it is a very elucidating pamphlet by a man whom you must all revere and honor—Hon. Andrew D. White. He illustrates the clamor of the people for more money until they had actually issued, in France, a little over 100 years ago 8,000 millions of dollars of currency. It was just simply because when they got into a little depressed condition of affairs they said, "Give us some more money. Let us run the printing press and get some more." That kept up until they increased from 400 millions to start with until they got 40,000 millions of francs—8,000 millions of dollars outstanding. They confiscated the estates of the nobles of France, and the estates belonging to the church, aggregating in value about 1,400 millions of dollars, and they said that they would hold those as collateral security also; and with one fell swoop France repudiated the whole debt.

The point about it is I wanted to illustrate that popular clamor sometimes carry good people off their feet.

Senator SHAFROTH. But as a matter of fact, if a 50 per cent reserve is made and declared and held to, it is a sufficient reserve for any currency?

Mr. FRAME. It is better than 33⅓. Of course Great Britain—take the Bank of England. It always has more gold on hand than notes outstanding.

Senator SHAFROTH. Belgium money, though, is only 19 per cent.

Mr. FRAME. The Bank of Belgium?

Senator SHAFROTH. Yes. The most of these banks have not any maximum reserve which they have got to maintain at all, but they maintain a higher rate. The Bank of Germany is 33⅓, but they maintain often a higher reserve than that.

Senator POMERENE. What is France?

Senator SHAFROTH. France is now down to nothing, if they want to; but they have got a very fair reserve.

Mr. FRAME. They keep an average of about 80 per cent on hand.

Senator SHAFROTH. It is very large at the present time.

The CHAIRMAN. It includes silver, but it is mostly gold.

Mr. FRAME. They have been gradually substituting gold for silver.

Senator SHAFROTH. Were you going to look up something?

Mr. FRAME. What country was it you asked about?

Senator SHAFROTH. Belgium.

Mr. FRAME. The national-bank circulation is 136 millions; deposits, 16 millions; total specie, 24 millions; that is a little less than 20 per cent.

Senator SHAFROTH. Yes; about 19 per cent.

The CHAIRMAN. Are you speaking in francs?

Mr. FRAME. This is the Bank of Belgium.

The CHAIRMAN. No; I say you are speaking in francs?

Mr. FRAME. No; I have reduced it to dollars.

The CHAIRMAN. What did you say their specie was?

Mr. FRAME. When this pamphlet was written a number of years ago—it is dated 1906—it was 24 millions. From this table all European banks is shown, thus enlightening the whole subject.

TABLE No. 1.—*Capital, specie, circulation, etc., of the great European single banks of issue on or about June 30, 1906.*

[Amounts are expressed in millions.]

	Capital.	Circulation.	Deposits.	Total specie.	Loans.
Imperial Bank of Germany	$25.9	$412.0	$149.9	$211.1	$243.7
Bank of Austria-Hungary	41.9	376.5	31.6	209.2	189.8
National Bank of Belgium	9.6	136.5	16.3	24.1	124.8
National Bank of Bulgaria	1.8	8.6	17.0	7.6	11.9
National Bank of Denmark	6.8	24.9	.8	27.2	13.7
Bank of Spain	28.9	308.7	134.2	200.2	154.4
Bank of Finland	1.9	13.2	4.2	5.2	11.7
Bank of France	35.2	908.8	189.1	803.4	264.3
National Bank of Greece	3.9	23.1	23.4	.4	21.6
Bank of Italy	24.9	313.3	90.6	152.7	91.6
Bank of Naples	11.6	68.6	16.1	32.8	34.5
Bank of Sicily		14.8	10.6	9.1	10.9
Bank of Norway	3.5	21.4	1.9	8.0	12.0
Bank of Netherlands	5.0	113.0	2.5	57.1	59.8
Bank of Portugal	14.4	74.5	29.3	12.7	26.5
National Bank of Roumania	2.9	43.1		15.0	25.2
Imperial Bank of Russia	25.3	591.0	109.8	455.9	208.3
Bank of England	70.8	146.8	380.8	187.8	166.8
National Bank of Servia	1.1	6.6	.6	4.5	2.3
Royal Bank of Sweden	11.9	52.9	12.2	30.6	37.0
Total (20 banks)	340.5	3,567.6	1,120.4	2,528.6	1,798.8

The foregoing, practically banks of issue and not of deposit, show demand liabilities versus coin reserves, as compared to the national banks of issue in the United States, as follows (amounts being expressed in millions):

	20 European banks.	6,137 United States national banks.
Circulation outstanding	$3,567.6	$617.9
Deposits	1,120.4	5,797.0
Total	4,688.0	6,415.9
Coin reserves held	2,825.9	484.4

Mark the fact that the great issuing banks of Europe hold 54 per cent of demand liabilities in coin, as against only 7 per cent in the United States.

Senator SHAFROTH. Do you think that the national-bank currency should be retired in this country under present conditions, either gradually or all at once? Of course all at once would be absurd.

Mr. FRAME. We would have a panic very quickly.

Senator SHAFROTH. But even gradually, with the substitution of another currency or another system?

Mr. FRAME. I think we ought to have the national banks issue a currency, or we ought to have some centralized organization do it. I believe largely in the methods of the issuance of currency abroad. Practically, as far as small banks are concerned, there are none in

Europe that have the power to issue currency to-day, except in Great Britain. There are a number of them there that have the privilege, whose charters have not expired, when they were issued previous to 1844. Any bank that has been chartered since 1844 has no power to issue currency at all. The amount of those who have the privilege of issuing it is very limited to-day.

Senator SHAFROTH. It only amounts, I think, to about £2,000,000 outside of the Bank of England?

Mr. FRAME. I think that in Scotland it amounts to £2,600,000, or about $13,000,000. But it is infinitestimal as a whole.

Senator BRISTOW. I would like to ask a question there.

Senator REED. You were on the question of bank circulation—bank notes—and I have a question pertinent to that. I understand that it is a rule of finance, which you bankers recognize, that an inferior currency is always kept in circulation more than a superior currency.

Mr. FRAME. As an illustration of that, we keep on hand gold certificates, because we like to have the gold in the department at Washington here to save abrasion, because it is weighty to carry, etc., and we pay out other issues in preference to that. The human family is built the same way the world over. We always keep the best. That is the Gresham law.

Senator POMERENE. You would pay out a dollar with a hole in it rather than a sound one.

Mr. FRAME. If you have two calves, as Adam Smith says, to pay a debt, the leanest one does it, if both are legal tender.

Senator REED. This national-bank note is not a full legal tender, is it?

Mr. FRAME. No, sir.

Senator REED. Therefore it can not be used to pay customs dues, one of the great sources of revenue of our Government. The result, therefore, is that the money which flows into the Federal Treasury from that source comes in in something else than bank notes. That is true, is it not?

Mr. FRAME. Yes.

Senator REED. And yet the bank note stays out and performs the function of money for ordinary business transactions?

Mr. FRAME. Yes.

Senator REED. Is not the result of that that the Government gets more gold at its ports of entry, its customhouses, than it would if we were to make the bank note full legal tender?

Mr. FRAME. And acceptable for customs?

Senator REED. Yes.

Mr. FRAME. I think that is just the point I wanted to raise about this question of reserves for these Federal reserve banks—that they be compelled to hold gold. The law should say so. If done, then when trouble ensues we have the gold to do business with.

Senator REED. I am talking about the proposition of whether, if we were to retire the national bank note and issue in lieu of it a full legal-tender note, it would cut off our source of gold supply to some extent?

Mr. FRAME. Not unless it was done to an extreme beyond what is already outstanding.

Senator REED. There are $750,000,000 of bank notes circulating in the country. They are not receivable at the customhouses. They perform the ordinary functions of money.

Senator SHAFROTH. I think they are receivable there now. I think the duties are paid in bank notes or any currency of the United States. Since the provision of 1900 I think every form of note in the United States is received in the customhouses. During the war it was not, but during the time up to that time my information has been that they are received.

Senator REED. They may be received, but they are not legally receivable.

Senator SHAFROTH. Oh, no; they could shut down on it at any time.

Senator REED. If we were now to transform that $750,000,000 into a full legal tender, receivable for customs and everything else, then the money that would come into the Treasury would be just like the money that goes into the pockets of all the people, and we would be getting $750,000,000 of bank notes on the money that we substitute for them instead of giving gold. Would not that interfere with the Government being able to collect a currency and put aside gold in its Treasury?

Mr. FRAME. The law to compel payment in gold always keeps the Government in condition where it can maintain its supply.

Senator REED. Of course, that would be true, but if we were to make the bank note to-day a full legal tender, or were to substitute for it another form of money as a full legal tender, and it flowed through the customhouses, it would take the place in part of gold that now goes through, would it not?

Mr. FRAME. Yes, sir.

Senator REED. And our opportunity to get gold and to put it away into the vaults, pile it up in the form of these gold reserves, would be lessened, would it not?

Mr. FRAME. It undoubtedly would.

Senator REED. Then, is it not a serious question whether that national-bank currency is not now performing a very useful function to the Government?

Mr. FRAME. It, perhaps, performs a useful function in holding the gold in the country, because gold for reserves is now held by the banks largely. Over $712,000,000, I believe, at the last report, was in gold or gold certificates.

Senator REED. Those are all the questions I wanted to ask.

Mr. FRAME. On that question of the gold certificates, that does not cost the United States Government anything more than the printing and the storage. The people of the United States voluntarily put that gold in there. They have the gold certificates. They are the very best possible kind of a money that we could possibly have. We never think but what they are good beyond question. It is just like my friend here pulling out of his pocket, yesterday, gold certificates.

Senator SHAFROTH. Yes; I paid my check and it was cashed in gold certificates.

Mr. FRAME. It is keeping the gold in the country, and it is not costing the people anything. It is a foundation which is a steadier

for our great superstructure of credit, which is far better than it would be if it was simply an I. O. U. or a credit currency.

Senator SHAFROTH. They told me, over at the Treasury, that the tendency of the Treasury Department is that the money comes in there and is deposited and dropped into the vaults in order to get rid of the abrasion, and in order to get rid of a great many inconveniences, and that the tendency now of the department is to shove out the gold certificates. The national-bank note is subordinate currency, so far as it is concerned. It seems that they wished to shove out these gold certificates, and they are doing it, as I understand it.

Mr. FRAME. That is the exact illustration of what I have done over my counter hundreds of times. We tried to pay gold over the counter years ago, over and over and over again. The currency of the United States is so unquestioned that no man ever takes it out of his pocket to see whether it is good, bad, or indifferent. People often say, "I do not want that gold. Give me some of your good currency; that is good enough for me." They would rather have that in their pockets than gold, except on the Pacific coast.

Senator SHAFROTH. And they will take any form of currency?

Mr. FRAME. Any form of currency, because they have not had the experience that I had in my early days.

Senator POMERENE. Why the exception on the coast?

Mr. FRAME. I do not know. They must be a little bit like the Englishmen. They seem to hold to their pounds, shillings, and pence.

The CHAIRMAN. I would like to ask you one question. Would you think it advisable to make these Federal reserve notes legal tender, or not? If not, why not?

Mr. FRAME. As it would have a tendency to drive gold out of the country, I would not make them a legal tender.

Senator POMERENE. Why?

Mr. FRAME. The so-called Gresham law would come into play.

The CHAIRMAN. If it is made redeemable in gold why should it drive out the gold?

Mr. FRAME. Well, if it is kept redeemable in gold it would always be good in gold, as long as the confidence of the American people was such that they said, "We can get it if we want it." But in the experience we had when President Cleveland sold a large amount of 4 per cent bonds it caused a loss of confidence in the ability of the Government to maintain its power to redeem in gold.

Senator REED. But there is another thing. There was not any money in the Treasury.

Mr. FRAME. That is why I say keep reserves in gold.

Senator SHAFROTH. The appropriations exceeded the income.

Senator REED. They did not have enough money to run 60 days.

Mr. FRAME. That is exactly the reason why I think it is the proper thing to do to keep our final reserve money in the coin of the world. That is the idea.

The CHAIRMAN. Mr. Flannagan, of New Jersey, is here. Is it the wish of the committee to begin his testimony to-night or to-morrow?

Senator REED. I am rather tired, Mr. Chairman. I do not mean to say that you made me tired, Mr. Frame, except you made me think, and it makes me tired to think.

Mr. FRAME. There is just one part I would like to refer to in the bill before closing.

I would like to call your attention to page 11, because I presume it is an oversight on the part of the other House, as a matter of strict justice:

In case a subscribing bank reduces its capital it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and in case a bank goes into voluntary liquidation it shall surrender all of its holdings of the capital of said Federal reserve bank.

Senator SHAFROTH. That has been changed a little as it has passed.

The CHAIRMAN. What is the point?

Mr. FRAME (reading):

In either case the shares surrendered shall be canceled and the bank shall receive in payment therefor a sum equal to its cash paid subscriptions on the shares surrendered.

Senator SHAFROTH. That has also been modified.

The CHAIRMAN. Do you mean that the earnings on the stock is ignored?

Mr. FRAME. Yes. The point I want to bring out is that the face only is paid back. Now, suppose that during a term of six or eight years an accumulation of 20 per cent of capital was added to it. It would seem perfectly fair if the banks of the United States should turn in that capitalization of $100,000,000 and you had $20,000,000 of surplus that was accumulated from profits, that the bank when it surrenders it should receive its proportionate share of surplus.

The CHAIRMAN. You mean the book value?

Mr. FRAME. The book value.

Senator REED. Then, in addition to that, this relates only to those banks which voluntarily reduce their stock and go into voluntary liquidation. What is the provision, if anyone here knows, when it is involuntary? Of course, in that case some rule ought to be made that the creditors would get the full book value of their stock. They ought not to lose it and let it be added to the profits.

Mr. FRAME. Would not that cover the point that I make?

Senator SHAFROTH. Yes.

Senator REED. The point you make refers to one thing, but I wondered whether it covers the involuntary liquidations.

Senator SHAFROTH. If not, probably it ought to be made to cover it?

Mr. FRAME. Oh, yes; it ought to cover both; if it does in one case it certainly ought to be in another.

Senator REED. It reads:

That if any shareholder of a Federal reserve bank shall become insolvent and a receiver be appointed, the stock held by it in said Federal reserve bank shall be canceled and the balance, after deducting from the amount of its cash-paid subscriptions all debts due by such insolvent bank to said Federal reserve bank, shall be paid to the receiver of the insolvent bank.

Senator SHAFROTH. You can just put in there, "and accumulations."

Mr. FRAME. Or "book values."

Senator SHAFROTH. That will cover it.

Mr. FRAME. That is certainly equitable. In case a bank closed voluntarily or through a receivership there is no provision that I can see made for the care of the 2 per cent bonds. Of course, if there is a public market for them so they can sell them without any difficulty, that would be all right; but if there did not happen to be,

it would seem as though at least a provision should be in there that if they did fail or if they went into voluntary liquidation that at least a 3 per cent bond might be given to them in exchange for their twos.

Senator REED. That is, if we issued a 3 per cent bond.

Mr. FRAME. Well, you have provided in there for that, have you not?

Senator SHAFROTH. He means if the bill passes.

The CHAIRMAN. They have not actually been issued yet. [Laughter.]

Mr. FRAME. No; but they ought to be.

Senator SHAFROTH. That is one of the great stumbling blocks, you know.

Mr. FRAME. Well, I am speaking about the question of the justice of it.

Senator REED. You mean that bond ought to be cashed in some way?

Mr. FRAME. Ought to be cashed in some way; taken care of by the Government in some way instead of being thrown on the helpless bank. If it involuntarily suspended, or if the bank wanted to go out of business, it ought to be provided for. Really, a 2 per cent bond ought never to have been sold. I think it was a great misfortune that it was sold. It ought to have been a 3 per cent bond, with a higher tax.

I thank the committee for their kindness in hearing me, and I appreciate it very thoroughly.

The CHAIRMAN. We are glad to have you here with us, Mr. Frame.

Mr. FRAME. And I do hope that you will give to the country something that will live in history, equally with the Bullion Report of 1810, made to the House of Commons.

(The document referred to by the witness follows:)

SOME FACTS VERSUS FALLACIES IN BANKING REFORM.

[Address by Andrew Jay Frame, president of the Waukesha National Bank, Waukesha, Wis., delivered before the State Bankers' Association, at Muskogee, Okla., May 9, 1913.]

Great Britain, in her campaign of education on currency reform, was agitated by widespread discussion for 25 years previous to 1816 when Parliament indorsed the celebrated Bullion Report of 1810 to the House of Commons.

Prof. William G. Sumner in his History of American Currency dubs this report "The most important document in financial literature."

As to ameliorating panic conditions, the paramount enunciation in that document probably was "In the presence of a panic, it is the duty of the bank to discount freely to all solvent parties. I can not find in searching the records that this document advocates the necessity of discounting too freely in normal times. That question must necessarily be governed automatically by the law of supply and demand for money. Abnormally high interest rates are the true barometer that credit expansion has outstripped capital and in normal times, even in advancing prosperity, should be a warning that extra currency issues, which Prof. Sumner calls "fictitious capital," should not be greatly encouraged. The late *Titanic* disaster is a fair illustration of my meaning. Dr. Adam Smith said: "The cry of all ages is for more money." The cry of the present age is more speed in every way. The overbuoyant American needs a check rein to insure a conservatism which gives more permanent prosperity to all, thus limiting the evils of too frequent panic periods as well as their severity.

I declare that no live, progressive nation can be entirely free from panics. Only those nations where commerce and progress are dead can enjoy the doubtful legacy. Panics will forever be with those nations enjoying great progress, expanded credit and unbounded energy. These reign here. I plead for conservatism as a safety valve to true permanent progress and relief when panic threatens.

Under Sir Robert Peel's Act of 1844, Great Britain has a very limited per capita circulation, and it is far more rigid than ours. Nevertheless, in 1847, 1857, and 1866, when panics were raging, and banks and business houses were falling like snow in a winter's storm, on Government assurance that the rigid currency limitation would not be enforced, the governor of the Bank of England publicly announced that all good, solvent bankers and merchants could obtain at high rates discounts for cash or credit at the bank, the banking department merely obtaining extra cash from the issue department on deposit with it of ample securities. The mere knowledge that relief was at hand, history says, broke the back of the panic almost in the twinkling of an eye, and little "extra cash" was required to restore confidence. Mark the fact, relief came with "extra cash" at high interest rates, and such cash was almost immediately retired and normal conditions prevailed thereafter.

As our general banking functions in most material respects under the beneficient, independent banking systems of the United States, barring a few States without good laws, now fulfill their true mission toward the people in our phenomenal progress, it seems the only needful requirement is some flexibility to our currency issues when panic threatens, to the end that general paralysis of trade and commerce may be avoided.

To accomplish this great end we need no monopolistic, branch banking system that even threatens to revolutionize present conditions; we need in normal times no further inflation of our present excessive currency issues; we need no additional easy methods of expanding credit by acceptances or otherwise, but as I have often said before, we do need some method of obtaining rediscounts in abnormal periods from some reservoir of extra cash at high interest rates, purely as a relief measure to prevent the calamitous conditions of general cash suspension by banks. The citation from experience, not theory, of the Bank of England covers the point at issue, except that the barometer of a high interest rate for extra cash should be an automatic regulator of flexibility, and the bank should not be obliged to ask the Government not to prosecute for infringement of law for relief in time of trouble. The chairman of the Monetary Commission told me he asked the governor of the Bank of England why the Government did not give this extraordinary power to the bank for relief in troublous times, and his answer was, "We fear overexpansion of credit." My study of the subject, however, convinces me that a middle ground between the rigid English currency system on one hand and on the other hand the demands of the banking reform advocates for almost unlimited, untaxed currency issues, even in normal times; also for monopolistic, revolutionary, complex, and compound remedies at all times which are not germane to relief under pressure, holds the true solution for our troubles. Doping patients with sweetened quack medicine when they are not ill undermines a sound constitution. Encouraging pyramiding of credit by opening up easy methods for expansion leads to bubble blowing. It is a panic breeder and not a preventer. The Imperial Bank of Germany comes closer to covering the correct method of relief, as it can issue but one hundred and thirty millions of uncovered currency, and all in excess thereof must pay a tax of 5 per cent thereon to the Government. This penalizes overexpansion of currency and is the safety valve which has kept her overstrained condition from exploding. Even this method has taxed her utmost powers to prevent a cataclysm there, as is evidenced by the German banks borrowing money of the United States banks on good collateral at rates running from 5 to 6 per cent clear through 1911-12, and even up to date. The banks of Germany even bid 20 per cent for money in the New York market in December, 1911, and at several periods since have bid in excess of 6 per cent. Notwithstanding her 5 per cent penalized flexible currency saved her from panic, yet Germany has bordered thereon for some time, chiefly because of overindulgence in acceptances, which are more freely granted there than elsewhere, coupled with an enthusiastic industrial development, overtaxing her surplus capital.

HANDWRITING UPON THE WALL.

Just a few more words of warning on overexpansion of credit before I leave it:

	Millions.
In 1890 the total wealth of the United States was about	65,000
In 1913 the total wealth has about doubled, or	130,000
The banking power of the United States:	
In 1890 was	5,150
In 1913 it is five times as great, or	25,000

therefore, while our wealth doubled, our pyramid of bank credits increased fivefold.

Again, the 1912 Report of the Comptroller of the Currency shows "Loans and discounts," including bonds, of all the banks in the United States about as follows:

	Millions.
In various classes of bonds (not Government)	4,500
Loans on real estate, say	3,500
General loans, not quickly liquidated	6,000
Prime paper, including bills of lading	4,500
Total	18,500

This indicates that only one-fourth of the total is prime paper, and the other three-fourths is in other securities, because all live paper is now promptly cared for first. The heretical demand by the banking-reform advocates for 7,400 national banks to be allowed to loan their credit to their customers on acceptances, which is clearly a complication and not a relief of banks in panic periods, is condemned by 12 bankers from 12 States in a signed brief which I filed at Washington with the Banking and Currency Committee. These 12 bankers declare that if their city correspondents enter the field of accepting customers' drafts they will transfer their balances to more conservative banks. They declare this function is the field for acceptance or discount houses, and not for banks of deposit.

It is gratifying to note that although a year ago when, under the title of "Diagnosis of the monetary commission bill" I addressed the bankers and business men's clubs of Memphis, Tenn., Little Rock, Ark., and elsewhere, and therein condemned general bank acceptances as unsafe, lately the chairman of the Business Men's League of the United States reiterated my expression that "it was a dangerous proposition." Let there be more light and the whole question may be soundly solved yet without breaking all the crockery.

In face of the fact that the world's production of gold from 1490 to 1890 (400 years) was 7,350 millions, and from 1890 to 1913 (23 years) was 7,000 millions, in face of the fact that the pages of history are strewn with proofs, as recorded by all the great authorities on political economy, warning us against overindulgence in credit expansion; in face of the fact that practically all our conservative banking journals and economic writers on the great dailies are continually sounding their notes of warning (time forbids quoting from a mass of evidence); in face of the fact that the world's greatest political economist, Paul LeRoy Beaulieu, of Paris, France, lately declared "that the whole world's pyramid of credit was overexpanded," I ask in all seriousness is not the "handwriting upon the wall" a sufficient warning to us that conservatism—not further easy methods of expanding our currency or credit—should reign supreme? I challenge any banker or statesman for disproof of these facts.

Without further pursuit of this subject, and as the new political power is wrestling with the generally supposed knotty problem, let us await the findings in hope of a sound solution.

Permit, therefore, a few logical, general statements of fact—good in any event—followed by a few of the many reasons why the independent banking system of the United States is not the worst but the best in the world—barring only relief in times of pressure—in the hope that it may help enlighten our pathway.

PANICS ABROAD AND HERE.

First, permit, regretfully, a reference to statements that have periodically been sent broadcast throughout the land, which are so seriously misleading that they ought not to pass without comment.

Within two years I have heard Hon. Robert W. Bonynge, a member of the monetary commission, in public addresses reiterate the following:

"It may be several years yet before the country will be ready for a full and scientific remodeling of our antiquated banking system. Our faulty banking system is responsible for the many bank panics that have disgraced us in the past, and from which all other great commercial nations have been exempt for practically half a century."

David R. Forgan, president National City Bank of Chicago, before the New York Credit Men's Association, January 23, 1913 (see p. 4, pamphlet, How to avoid panics), said: "I say it is nothing short of a national disgrace that this is the only country in the civilized world that has had panics (and it has had about half a dozen) causing general suspension of the banks within the memory of living man."

The Chamber of Commerce of the United States of America, at Washington, D. C., January 21, 22, 23, 1913, adopted the following resolutions:

"Our present banking and currency system, based upon laws enacted 50 years ago, is entirely inadequate for the present needs of the people and the business interests of the country, on which the welfare of our people depends.

"That there is no necessity for the continuance of this condition in the United States, and for the recurring financial panics it tends to induce, is evidenced by the absence of such frequent financial disturbances in other countries."

These with others of a like character seem to have imbued the masses with the idea that panics do not occur abroad. Some stress is laid upon a fine distinction between the words "bank" and "commercial" panic. The Standard Dictionary indicates a distinction like unto tweedledum and tweedledee. As to the business men of the chamber of commerce falling into error on the subject it may be excusable, because it is not to be expected that they are familiar with the world's history on banking.

As a partial answer to these fallacious statements permit me to quote from my address of 1902 before the State Bankers' Association of Michigan.

Panic of 1836 to 1839.—Sumner's History of American Currency says: "In 1836 the Agricultural Bank of Ireland and the Northern and Central Bank of Manchester failed." They had 70 or 80 branches. "This was the first blow of the crisis which convulsed Europe and America." According to McLeod failures continued through 1839 before equilibrium was restored.

Panic of 1847.—McLeod, in The History of Banking in All Nations, quotes many great bank failures in 1847 all over Britain and sums up by saying the liabilities were over £15,000,000. Further, it says: "A complete cessation of private discounts followed." Doubtless branch banks went down, but no distinction is noted.

Panic of 1857.—Again McLeod quotes a long list of terrible bank failures in 1857, and then says: "As the failures in London became more tremendous discounts became more and more contracted. The stunning news of the stoppage of so many banks created a banking panic. Private banks stopped discounting altogether. When universal ruin was at last impending, etc." "This great crisis far exceeded in intensity that of 1847." The aggregate liabilities must have been appalling, but are not stated. Mr. Stickney, in his American Bankers' Association address, stated that "in 1837 and 1838, also in 1856, there was a great commercial crisis in Great Britain, but not a bank in England or Scotland failed." As I can find no record of a crisis in 1856, must we not conclude that this date is erroneous and comment as to failures would be uncharitable?

Panic of 1866.—In 1866, according to McLeod, at the time Overend, Gurney & Co. failed for £10,000,000, the bank failures of Great Britain aggregated the stupendous sum of £50,000,000. This sum exceeds the total liabilities of all the failed national banks of the United States since their inception, 40 years ago, to this date by over £13,000,000.

Panic of 1878.—In 1878 the West of England & South Wales Banking Co. failed for £5,000,000, with 40 or 50 branches. In the same year the City of Glasgow Bank failed for £14,000,000, with 131 branches. These, with other bank failures, carried the liabilities to over £20,000,000. The American Encyclopedia says: "The year 1878 was marked by deepening financial gloom in England, aggravated by disastrous financial failures, and the City of Glasgow Bank failure amounted to almost a national disaster."

Panic of 1890.—McLeod quotes the failure of the Barings in 1890 for £21,000,000, but for fear of a general upheaval the great banks of Britain joined together and liquidated the Barings, thus limiting the disaster materially, although other failures occurred.

Hearers, are you tired? I wonder sometimes what "standard authorities" Mr. Stickney studied when at the American Bankers' Association last fall he drew such a lovely picture of the magnificent banking system of Great Britain, which we, with "no system," ought to adopt to prevent panics and to become the creditor nation of the world.

Let us look for a moment at the panics in the United States.

Panic of 1836.—From 1836 to 1839 history would indicate that we, in consequence of the bank war, speculation, etc., were in bad straits as well as Britain.

Panic of 1857.—In 1857, on account of wildcat banking enjoying its widest freedom, we have no cause for claiming more than parallel conditions compared with those of Britain.

Panic of 1873.—In 1873, on account of return to normal values after the inflated prices produced by cheap money during the suspension of specie payments on account of the Civil War, we had a panic, but as to severity it did not compare with the cyclonic conditions that struck terror to Great Britain in 1866.

Panic of 1893.—In 1893 we had a panic in the United States. Not because of any special unsoundness in the banks of this country, but because the very foundation of the superstructure of our whole credit system was being undermined in an effort on the part of repudiators—thank God, not bankers—to pay off depositors and all other creditors in 50-cent dollars and to liquidate our foreign debts by the same dishonorable method, thus aggravating panic conditions by the withdrawal by creditors abroad on account of fright in the first five months of the year of $70,000,000 from our stock of gold. If business paralysis is not certain on an occasion when general repudiation and dishonor is rampant, then history falsifies the record. Confidence builds up, distrust paralyzes.

Let us sum up the panic records as to liabilities of failed banks:

Great Britain:	
1836 to 1839	[1]
1847 (over)	£15,000,000
1857	[2]
1866	50,000,000
1878 (over)	20,000,000
1890 (over)	21,000,000
In less than 60 years aggregate recorded (1836 and 1857 not recorded)	106,000,000
United States (in pounds sterling):	
1836 to 1839	[1]
1857 (call conditions parallel to those of Great Britain)	[1]
1873—	
National banks	2,200,000
All other banks	[1]
1893—	
National banks	6,000,000
All banks	14,800,000

It will readily be seen that Britain has 6 recorded panic dates as against 4 in the United States in the past 60 years, and that the recorded liabilities are over £106,000,000 in Britain and but a small fraction of that sum in the United States.

According to the 1901 report of the Comptroller of the Currency, the total liabilities 1863 to 1901 of failed national banks was £37,000,000; 1863 to 1896 of all other banks in United States, £44,000,000; making a total of £81,000,000.

This is £10,000,000 short of the liabilities of the banks of Great Britain in the panics of 1866, 1878, and 1890 alone, not counting a single intermediate failure in the past 40 years. When we come to compare historical facts with unsupported assertion, the banking system of the United States looms up so grandly that every American should feel proud. I know you will pardon me if I refer to one more bit of history, the Australian, which is an offshoot of Great Britain's branch banking system. The American Encyclopedia for 1893 says, "Out of 28 banks with 1,700 branches, 13 of them with 800 or 900 branches failed in six months ending May, 1893, for the stupendous sum of £90,000,000," which sum in that single swoop exceeds the total liabilities of all the failed banks in

[1] No record.
[2] No record, except "far greater than in 1847."

the United States in the past 40 years, although the banking power of the United States was six times that of Australia at that time. What is the cause of the financial distress in Germany for the past few years? She has had a branch banking system, too.

I say, "Why do these people insist on reiterating such fallacies?" I leave the answer to my hearers.

Here is another that makes a country banker smile. An eminent branch-bank advocate openly declared in public lately, "It is the country banker that causes a panic, and only the country banker."

As an answer I will simply ask, "Did the panic of 1907 originate in New York City? If not, where did it incubate?"

"Did 'the country banker' cause it?"

"Would the banks of the country, as a whole, have suspended cash payments if the New York City banks in 1907 had not suddenly wired all banks, city and country alike, that 'No cash will be paid on balances on Monday morning'?"

"Are panics born in the country or in the city, where great promotions flourish?"

"Did not the 'cause' in New York produce the 'effect' throughout the country as to cash that 'You no got 'em, I want 'em'? The effect simply aggravated the cause."

One other point and I am through.

BRANCH V. INDEPENDENT BANKING.

As Canadian branch banking is so often lauded as a model for us, permit a brief comparison of the two systems:

First. It requires a capitalization of not less than $500,000 to start a bank in Canada. There are now in the chief cities of Canada 27 great central banks. These own and control over 2,500 branches scattered throughout the Dominion. The number of central banks has been materially reduced in the past 30 years, and it is a scandalous fact, widely admitted, that the powers controlling make it about as difficult to get into the select coterie as to get into a safe with a jimmy. The system evidently borders on a pure monopoly.

Second. The stock of these central banks—no stock being issued by the branches—is held largely in London, Liverpool, Quebec, Montreal, Toronto, etc., and only a small percentage throughout the Dominion. Of course, dividends follow the stockholders' residence.

Third. I understand the stock is assessed where the holder resides and branches pay a license fee to do business, also taxes on the buildings owned by the bank, but the owner of such buildings would likewise pay the tax if rented by the bank.

Fourth. The branches in the country towns and smaller cities have no president or cashier and no board of directors, but are managed practically by figure-heads. One man has general supervision over 10 to 20 branches in separate localities, and the so-called local managers take orders from him.

Fifth. They take the deposits from one locality and send to others where interest rates are higher. Canadian banks, I am informed, have millions of dollars invested in Mexican and South American public utilities, to the detriment of home demands.

Let us compare conditions in Muskogee and the country generally with like cities in Canada.

Muskogee has 11 banks and trust companies, with capital and surplus of about $1,500,000, the bulk of which is owned at home. The presidents, cashiers, and boards of directors are strong, influential, public-spirited citizens. The local stockholders are all on the alert to upbuild Muskogee and bring profits on their stock holdings.

Under the Canadian branch-banking system the Muskogee presidents and cashiers would be set aside and the directors abolished. There would be comparatively no stockholders, even of the central banks, and assistant cashiers would be the managers of the branches. As self-interest is the first law of nature, this wrecking of the powerful influence for good of all these elements would breed indifference.

Again, as taxes are paid in Oklahoma on capital and surplus, Muskogee would get filched out of over $30,000 per year in bank taxes. If the stock is not all held now in Muskogee, it soon will be under your thrifty conditions. Then, if stockholders get but 6 per cent per annum on their investment of

$1,500,000, that would mean $90,000 less per annum for distribution in Muskogee, plus any undivided profits, all of which, if the Canadian system were adopted in the United States, would go to 100 or 200 great central banks of New York, Boston, Philadelphia, Chicago, etc., which would have the 25,000 present independent banks as tails to their big kites. A beautiful and enticing picture for Muskogee and the country generally. I appeal to you, gentlemen, is it not a fact that those allied to the ownership and management of the independent banks of the country have been wonderfully instrumental in the onward and upward progress of your farm sections, your hamlets, and your cities? If we upbuild these, do we not upbuild the great cities and the Nation as a whole?

Contrast these facts with the further ones that Canada, with splendid resources, has a territory about equal to the United States, with a population of but seven and a half millions; that her whole banking power is not equal to that of Massachusetts alone; that the Monetary Commission reports and other authorities show that the comparative losses to depositors and stockholders of Canadian banks, as compared to our national banking system, is as 3 to 1 in our favor; that interest rates are neither uniform nor are they lower than in the United States; that these same reports, as testified to by the general manager of the Bank of Nova Scotia, showed comparatively five banks failed in Canada to one national bank in the United States since 1880; that according to the same general manager in 1880 there were in Canada 41 banks; incorporated since (to 1906), 7 banks; total, 48 banks; that of this number 12 have failed and some others saved themselves by amalgamation (to-day but 27 are left); that Canada, notwithstanding she is bolstered up with great floods of British capital, invested in her railways, banks, etc., yet she is practically asleep compared to the wonderful energy of our people—and then ask yourselves if I am not justified in declaring "the Canadian branch-banking system skims the cream from the country to enrich the exchequers of the monopolists in the great cities, while the independent banking system of the United States helps wonderfully to upbuild the Nation as a whole."

In an address at Wausau, Wis., last March I made these statements, merely in a comparative way, and it seems to have hit the branch-bank advocates in the solar plexus, as they grew hysterical over it. If it is a dead issue, why should they get excited? The country better nail up the coffin if the issue is dead.

Perhaps a little Canadian testimony will not detract from my contentions. Therefore permit a short quotation from a 1912 weekly edition of the Toronto Star, which has a daily circulation largely in excess of any of the other six dailies there.

Preceding a well-written, logical four-column article, the following strong headlines appear in the Star: "Monster banking monopoly a leech at Canada's throat, killing local industry, depopulating rural districts—Centralization of almost entire financial power of Dominion in the hands of a few capitalists has resulted from our much-vaunted banking system—Almost total extermination of local banks."

I quote but two extracts therefrom, to wit:

"While large capital insures slow, steady transmission of deposits to 'branches' for control and use of head offices in smart alien centers, local credit based on local savings is transferred to parasites on whom rests neither responsibility, object, nor desire to exercise banking functions in support of local enterprises. With such credit basis lost, not only does the collapse or absorption of local bank institutions become inevitable, but local aspirations and confidence which had sustained local industry are wiped out or made dependent on the will and nod of competitive enterprise. So secretly, so gradually, does this sequestration of savings proceed, so insidiously are local enterprises undermined, that planting of a 'branch' to suck out local earnings, to extirpation of even the last local industry or institution, is embraced by 'slow-going' people with the same artless innocence as a 3-year child fondles a viper.

"To this accursed system of concentration of credit and destruction of local industry the Dominion of Canada stands indebted for a contracted population of 7,000,000 in place of 25,000,000 rightfully due it under decentralized systems of banks designed to sustain, to breathe the breath of economic life through the remotest as well as the most insulated of its parts."

This indictment from a Canadian rather outstrips mine.

Permit one other point not brought out heretofore.

As all ordinary banking functions are carried on in the banks of the United States at least as well as in Canada—I should say better, because our State

banks loan on real estate, and Canadian chartered banks do not—I suppose the oft-repeated assertion as to the wonderful elasticity of Canadian bank currency ought to be referred to. It probably is not generally known, but the fact remains that document No. 583 clearly shows that a hard-money market obtained in Canada in 1907. The Canadian banks, with large New York City deposits and demand loans, reduced both and shipped all the cash they could get to Canada, and to further aggravate the New York situation these Canadian banks transferred large amounts of their New York balances to London. Deposits in Canada declined $30,000,000 and the loans $25,000,000 in the last two months of 1907. The Dominion suspended the limitation on issues of currency and $5,115,000 of "emergency currency" was issued. I cite these facts to show that slow-going Canada has her troubles, too. Even if her currency system did pull her through without cash suspension by her banks, we can not adopt that system without adopting her branch system with it. For proof, Mr. J. B. Forgan, who is an ardent advocate of the Canadian system, in 1902 declared in an address: "To me the simple statement that about 10,000 (now double that number) banks, with capitals running all the way from $25,000 to $25,000,000, would have the privilege of issue settles it as impractical and impossible."

Query: Do we wish to surrender our independent system and adopt the monopolistic, "cream-skimming" Canadian system? Friends, draw your own conclusions. I refrain from wasting any more powder, although there is abundance left.

As a constructive policy is the real issue, I respectfully close with the following:

Condemning the best banking system the world ever knew, with a small "mote" in it, and glorifying the monopolistic branch banking systems of other nations with big "beams" in them, will not eradicate our single defect. We can only ameliorate panic conditions, but not through a big bank with many branches which will enter into severe competition with existing banks; not through acceptance privileges to 7,400 national banks, which would only aggravate our already overstrained credit; not by additions to our present inflated currency. These simply spell monopoly, inflation of currency and credit. They are panic breeders and not preventers. On the other hand, we can, if we will, prevent cash suspensions by banks and thereby ameliorate panic conditions through either of these simple methods.

I care not for the method, if results are obtained, barring objections stated. As the political party in power has turned down the Monetary Commission bill, I respectfully offer, under first, a new suggestion for earnest consideration and then mention two others well understood.

First. Permit the banks of the country to deposit in the Treasury Department at Washington, or other depository, out of present reserves, as follows (estimated): Five per cent of deposits from the three central reserve cities; 2 per cent of deposits from the three general reserve cities; 1 per cent of deposits from the country banks. This would mobilize, say, $300,000,000 in cash now held as reserve, and therefore would occasion no loss to any bank. In ordinary times country banks can obtain rediscounts as they do now—through their city correspondents. When trouble threatens in any section this vast reservoir of ready cash will be open to "discount freely to all solvent parties" at high rates, and the mere knowledge that relief can be had will impart general confidence. Its operation should be like unto a water reservoir—to put out a fire in its incipiency and refill again ready for future troubles—not a money maker; a servant, not a master.

Second. Extend the privileges of the Aldrich-Vreeland Act to all banks on a uniform form of currency. There are $1,200,000,000 of bonds now in the banks of the United States eligible for use to obtain extra cash in troublous times, and the Treasury Department holds $500,000,000 national-bank notes for this purpose.

Third. Legalize clearing-house certificates, on which extra uniform currency can be had when panic threatens.

Either of these will cure our single material defect. We will also maintain our splendid independent system intact. We must turn a deaf ear to the siren song of those who argue so loudly for complex and compound remedies. They are worse than the disease.

Brother bankers, why should we not get together by eliminating all complex and compound matters not germane to the end in view and decide upon a simple remedy for relief in the day of trouble? That is all we need, as banks which

can not take care of themselves in ordinary times are unworthy to live. This is the whole thing in a nutshell.

Query: It is a maxim that currency is not capital. In developing days the special privilege of issuing currency by banks as a substitute for capital seemed justifiable. To-day that function by banks generally is unjustifiable, because great accumulations of surplus capital have cut interest rates to less than one-half of those of 50 years ago; because our per capita circulation—mostly gold or gold certificates—more than doubled in that period, and because our credit is overexpanded now; therefore—

If a bank extends its loans to the limit of its assets (total loans are now over nine times the capital of all banks), then swaps its printed I O Us without interest in exchange for its customer's note drawing 5 per cent interest and upward, does not that act spell bubble blowing?

Is not a measure for relief in the day of trouble like unto a governor on an engine—all we need?

(Thereupon, at 5.45 o'clock p. m., the committee adjourned until to-morrow, Saturday, morning, at 10 o'clock.)

SATURDAY, SEPTEMBER 20, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, and Bristow.

The CHAIRMAN. Mr. Flannagan, the committee will be glad to hear you now. Mr. Flannagan is from Montclair, N. J.

Could you state your position and your experience in banking matters so that it may be embodied as a part of our record?

STATEMENT OF WILLIAM W. FLANNAGAN, OF MONTCLAIR, N. J.

Mr. FLANNAGAN. I was formerly cashier of the People's National Bank, of Charlottesville, Va., and afterwards the president of the Southern National Bank, in the city of New York. At present I am not engaged in any business, but after the severance of my connection with the Southern National Bank I was engaged a good many years in private banking.

Senator REED. In what year did you cease to be an active banker?

Mr. FLANNAGAN. In 1905.

Senator REED. Was that when you severed your connection with the Southern National Bank of New York?

Mr. FLANNAGAN. No; I severed my connection with the Southern National Bank in 1895.

Senator REED. How long were you president of the Southern National Bank?

Mr. FLANNAGAN. Ten years.

Senator REED. What was its capital stock?

Mr. FLANNAGAN. $1,000,000.

Senator REED. Can you tell us what its deposits were?

Mr. FLANNAGAN. Three and one-half million dollars. Shall I go ahead with my statement?

Senator REED. Yes; I think you may go ahead with your statement; I merely wanted that information.

Senator HITCHCOCK. Yes; these questions are merely preliminary.

Mr. FLANNAGAN. I should like to make my statement, and then any questions that the members of the committee desire to ask me I shall be glad to answer.

I am firmly convinced that the measure before you, now under general discussion throughout the country, has in its preparation been prompted by an earnest and patriotic desire to advance the best interests of all the people, irrespective of particular localities, and has not sought to benefit one class at the expense of another.

I consider that the bill displays a high order of constructive ability in legislation; that it is sound in its fundamental principles, and that with few changes it will remove the inherent defects which were inseparable from financial legislation 50 years ago, necessitated under the stress of abnormal conditions.

I have read with much interest and benefit the excellent report made by the House Banking and Currency Committee which accompanied the presentation of the bill and am impressed with its judicial tone and the spirit in which the difficulties of the problem are considered and the convincing reasons for the adoption of the remedies suggested.

I have also read the report and recommendations of the currency commission of the American Bankers' Association growing out of the recent meeting at Chicago. No one with an open mind can read and compare those two reports without being impressed with the contrast in the pervading idea of the two documents. The "presidents of 47 State bankers' associations" and "the representatives of 191 clearing houses," "being invited to attend and unite in an expression," "through their representatives adopt certain resolutions," which in the preamble are generally commendatory of the bill, but the provisions of which they emasculate in the changes suggested. These suggested changes are not supported in that document by any argument or appeal to reason. The signers seem to rely entirely upon a formidable array of names of the banking institutions and associations which they claim to represent, as if the "dictum" of such a quantity and quality of these eminently respectable bodies should carry conviction and be the last word.

The preamble says that to insure the successful operation of a new banking law, it must be of such a character as to warrant a general acceptance of its provisions by existing banking institutions, and therefore proceeds to tell what these changes must be in order to meet this approval. This method of securing legislation does not appeal to the average citizen, and I doubt if it appeals to you. After such an exhibition of the "big stick," it ill becomes these bankers to complain of the compulsory nature of the bill in question.

I can not doubt the patriotism nor the good faith of men in these high positions of trust, nor can I doubt, after much reflection, that what they contend for does not serve the best interests and welfare of the whole country.

What is the explanation? Can it be the pervading idea which has afflicted the great managers in the combinations of capital, that they are the guardians of the Nation's prosperity, and that such prosperity is inseparable from their continuing guardianship? Such a condition of mind may arise, and is apt to arise, where good men hold the power which directs the destinies of others, especially where

such men are imbued with the milk of human kindness and have the love for their fellow man warmly pulsating in their hearts. I have the greatest respect for the banking fraternity. I have been of it for many years, and my father was before me.

Banks and bankers are commonly considered dispensers of credit, this credit constituting more than 95 per cent of the daily financial and commercial operations of organized society in the supply of human wants, and yet I am inclined to the opinion that the very confusion of thought produced through the varied uses of this word "credit" accounts for an obsession on the part of many bankers and is not exclusive to them.

If I sell a man a horse and take his promise to pay in the future in the form of a note, I extend him credit; he has my confidence that he will pay. If I sell a bank that promise to pay—that is, have the note discounted and the proceeds placed to my credit in the form of a deposit—the meaning of the word is entirely changed. For now I say, the bank has given me credit, while in the sense of confidence the contrary is true; I have given the bank credit; I have extended to the bank my confidence that it will pay and accepted its promise in lieu of payment.

I am the creditor in both cases, and have exchanged my horse for the promise of the bank to pay me on demand, and yet I say I gave the buyer of the horse credit when I sold him the horse, and the bank gave me credit when I sold the note.

Senator HITCHCOCK. Mr. Flannagan, may I interrupt you there for a moment?

Mr. FLANNAGAN. Certainly.

Senator HITCHCOCK. That line of testimony is quite general; but I am unable to see how you can treat the action of the bank as you do. When you sold the note to the bank, you did it because you wanted the funds to use.

Mr. FLANNAGAN. Yes; I am going to explain all of that, and tell you exactly how it is a swapping of debts.

Senator HITCHCOCK. So that although you may start with credit on the books of the bank, what you are really doing is getting cash? It may be only to your credit five minutes. Now, why do all you bankers maintain that when you borrow money, or a person borrows money of a bank, he gets a credit on the books, whereas the general rule is that when he borrows money from a bank he borrows because he wants to use it, and it goes off the books?

Mr. FLANNAGAN. If you will let me get through with my statement I will illustrate that proposition to you.

Senator HITCHCOCK. That is to say, there is no need for credit being given you on the books of the bank at all. When you borrow money you go to the bank because you want to get money——

Mr. FLANNAGAN. It is an exchange of debts to begin with. It may be afterwards that the debt is discharged by the substitution of another debt or by the payment of coin.

Senator REED. I think, Senator Hitchcock, that Mr. Flannagan is arguing for the same idea as you.

Senator HITCHCOCK. Well, I have literally borrowed hundreds and thousands of dollars from banks, and when I borrowed money from them I have never left to my credit in the bank any considerable amount of money. I have used it at once. I have either taken the

cash over the counter or checked it out at once. And yet every banker who comes here goes upon the theory that when a man borrows money from a bank he leaves a credit on the books of the bank.

Mr. FLANNAGAN. Now, if you will let me get through with that point, I will illustrate it.

Senator HITCHCOCK. Oh, I beg your pardon for interrupting you.

Mr. FLANNAGAN. I will be glad to discuss that with you, because I think I can cover that very point to your satisfaction.

They are identically the same form of commercial transactions. In both instances I have parted with my property and accepted a promise of payment in lieu of payment. In one case I say I have given credit to my debtor, and in the other case that my debtor has given credit to me.

Is there any wonder that confusion of thought should arise when we thus use the same word to express entirely different meanings?

Again, the same word "credit" is used in an entirely different sense from either of the above. We speak of individuals or corporations having good credit, meaning their general standing in the community, or we say the credit of the United States stands the highest in the world, meaning the ability to borrow at the lowest rate of interest. In both cases the meaning of the word is the "ability to incur debt"—that somebody or everybody will accept the debt of the individual, corporation or Government—that is, the promise to pay instead of actual payment. This ability is not inherent. It must be conferred by another. Robinson Crusoe, with his ownership of everything around and about him did not have the ability to incur debt, and hence could not have credit. Nor can Rockefeller or Carnegie, with their untold millions, command or obtain credit unless they come in contact with some one else who confers it upon them.

In every exchange of property or service where the element of time enters, a reciprocal relation of debtor and creditor is established. A debt can not be created unless credit exists, nor can credit exist without the creation of a debt. So that though we speak of debt and credit separately, they can not exist separately, as they are relative terms, and it depends from which standpoint we view the relation.

Whether by common consent, or whether from the desire and ability of bankers to inculcate and circulate the idea that they are always to be associated with conferring credit, I do not know, but the fact is that the public does reverse the relation of debtor and creditor when speaking of banks, and instead of looking upon a bank as it would an ordinary debtor thinks and speaks of the banks' debt as a credit.

Every deposit in a bank is a debt by the bank to somebody; every circulating note issued by a bank is a debt to somebody. These "somebodies" are the creditors, and are the great mass of the people whom you represent, and whose welfare you purpose to promote. These deposits and these notes are the debts which are used by the people as a substitute for coin, and your problem is to legislate so that the substitution may be safely made, while at the same time facilitating this mutual relation of debtor and creditor to the advantage of both.

We say, and generally believe, and the bankers themselves believe, that the banks and bankers control the credit of the country, and

they think they are entitled to do so and to regulate the method of such control, by reason of their calling. But this is a great fallacy, and quite the contrary is true. The banks do control the credit which is represented by an entry on their books, but they do not control the credit or confidence which must be extended to them in order that these entries may be made. If they did, we should not have had financial panics nor the necessity for the legislation which is now under consideration.

Credit must emanate from the creditor and not from the debtor, and the banks are primarily the debtors. The credit of the country is conferred on or extended to the banks by the people, for the banks create the debts which the people accept in lieu of coin in their daily interchange of property and service.

Without the credit extended to them in the deposits the banks receive and in the notes which the people receive and circulate the banks could not ever assume the position to extend credit to others, except to the limited amount of their own capital, and with such limitation they would not, and could not, remain in business.

Of course you know this is true, but it may be well to emphasize this fact in figures. If you will examine the last condensed statement of all the national banks, published by the Comptroller of the Currency as of August 9, 1913, which I have here, you will find the total liabilities to be $10,876,852,343.58. Included in this amount is the capital stock, surplus fund, and undivided profits, aggregating $2,041,228,571.83, which, being deducted, leaves $8,835,623,771.75. This remainder represents what the banks owe. I am not saying they have not corresponding assets wherewith to pay, for this is exactly the case; but I do say this amount of upward of 8,835 millions of dollars represents their debt over and above their capital and profits, and that the creditors are the public.

It may possibly be said that this is not a fair way of stating it, because of this 8,800 millions of indebtedness 2,100 millions is among the banks themselves (due to banks), and 108 millions represents borrowed money from other banks—that is, rediscounts and bills payable—and hence the public are not the creditors.

This may serve as an argument if you take the banks from the classification of "the public," but if the indebtedness is reduced by calling the banks the "creditors," instead of the public, then we must reduce the corresponding assets by the amount of the loans in which the banks appear as the "debtors" (due from banks), say, 1,360 millions. The method of pyramiding the indebtedness really makes it impossible to analyze accurately as between two classes.

But let us consider the statement from the assets side, a favorite way when we want to "point with pride" to the great "banking power" of the country, as compared with the rest of the world. Out of the total assets, which, of course, are the 10,876 millions as before stated, I wish to draw your attention to debts on which the banks draw interest, as follows (omitting thousands):

Loans and discounts	$6,163,555
Overdrafts	18,378
United States bonds	790,023
Other bonds and securities	1,095,906
Reserve agents	769,214
Total debt earning interest	8,837,076

Assuming that:		
Due from other national banks	$408,922	
Due from State banks	192,214	
Being a total of	601,136	
Does not draw interest:		
Deduct—		
Capital	1,056,346	
Surplus	725,334	
Undivided profits	259,549	
	2,041,229	
Less invested in real estate	284,569	
		$1,756,660
Leaves the capital of others, on which the banks earn profit		7,080,416

That is to say, the national banks, operating under a franchise conferred by the people, are given an earning capacity by reason of that franchise, sufficient to have doubled the original capital invested, and that this earning capacity continues on an amount equal to four times the increased capital thus doubled from profits, and that $7,000,000,000 thereof, on which they draw interest, represents their indebtedness to the people—whom you represent.

It therefore follows that in establishing a Federal reserve board, composed exclusively of Government officials, and in the adoption of the other provisions approved by your best judgment, and supported by convincing reason, you are exercising your true prerogative as the representative of the people and conserving their interests, and not likely to be swerved from your purpose when you are told by a combination called for the avowed purpose of influencing your action that without general approval by it of the measure you adopt such measure can not be carried into successful operation.

While I can not approve the form and tenor of the resolutions adopted by the Chicago meeting, I do think it is of the greatest importance to have the measure meet the hearty and enthusiastic indorsement of the banking fraternity.

I do not believe you can reasonably expect this kind of approval from the national banks in the reserve cities, and to a less degree from the banks in the central reserve cities. They have so long been accustomed to having the use of the "so-called" reserves of other banks as ordinary deposits with them, that they naturally feel averse to a change which deprives them of this source of profit.

Perhaps in many instances they fail to realize that this is the controlling influence in their opposition. But this loss may be compensated in other ways, and by making the measure more attractive to country banks (while preserving its fundamental principles) you can make their approval so overwhelmingly unanimous that the big banks will of necessity acquiesce.

Now, Senator Hitchcock, if you wish to discuss with me the matter of credits, we will take it up—or shall I continue? I am now going to discuss what the amendments are which I propose.

Senator HITCHCOCK. That was not at all an important matter that I had in mind, but I notice that almost every witness that was ever before the committee, and every banker that I have ever talked to, goes on the theory that when a man borrows money he at once, instead of taking the cash across the counter, secures a credit on the books of the bank.

Mr. FLANNAGAN. Let me stop you right there. A man does not borrow money at all. What he does, when he goes to a bank and gets a note discounted, is to swap his debt for the bank's and the bank evidences its debt by placing a credit on its books. It is another operation to convert that into money. It is true that the bank gives a debt which is payable on demand, and that debt payable on demand is the thing which is substituted for coin by the people in the daily operations of the bank every day.

Senator HITCHCOCK. Well, do you think that it is possible to borrow money from the banks?

Mr. FLANNAGAN. You do not borrow money. You get it in an indirect way; but the first thing you do is to swap debts, or credits.

Senator REED. Well, you might put your note over the counter of the bank and get it in cash, but that is not an ordinary transaction.

Mr. FLANNAGAN. No; the ordinary transaction is to get your credit on the bank's books.

Senator REED. I think I can tell what is misleading Senator Hitchcock. He never borrowed any money of a bank except when he needed it right away. [Laughter.]

Mr. FLANNAGAN. He does not keep any balance?

Senator HITCHCOCK. Now, Mr. Flannagan, I wonder why there is such an insistence on treating the loan as a loan of credit, when in many cases I know, as a matter of fact, that it is a loan of actual money. I have been to the bank and borrowed money myself.

Mr. FLANNAGAN. Certainly.

Senator HITCHCOCK. And got the legal tender or the gold over the counter.

Mr. FLANNAGAN. Certainly; that can be done.

Senator POMERENE. That is the exception, however, when that is done.

Mr. FLANNAGAN. What you did, Senator Hitchcock, was to take the bank's credit that was granted to you at the time it made the loan to you and immediately convert it into money; that is all. But the operation of a discount is the bank substituting its debt, payable on demand, for its customer's debt, payable in the future.

Senator HITCHCOCK. Of course, if that is true, then it is true of an individual as well as a bank?

Mr. FLANNAGAN. Certainly.

Senator HITCHCOCK. And if I come to you now and say to you, "I want to borrow $5," and I give you my note, and you hand me the $5, I have not borrowed money from you, but have borrowed merely a credit.

Senator REED. That would not be a question of credit; but it would be a question of discretion. [Laughter.]

Senator HITCHCOCK. Now, I should like to have you distinguish between the two. Why do you distinguish them, and assume that there is some invisible or psychological loan of credit in the case of the bank?

Mr. FLANNAGAN. There is nothing invisible or psychological about it. The proposition is this: If you come and borrow $5 from me you do not borrow my note; you do not borrow my credit, because my credit, or my debt, will not circulate as money, and will not take the place of money. I am speaking now of myself as an individual.

Senator HITCHCOCK. Yes; I understand.

Mr. FLANNAGAN. But if you go to the bank and you get money—that is, get coin—that is a different proposition.

Senator HITCHCOCK. Yes; that is what I mean. Why do you always insist that it is credit in the case of the bank, when there may be no credit involved, or only a momentary credit, put on the books of the bank and taken off again immediately.

Mr. FLANNAGAN. But of course when you want to define the function of "discount" you must do it in respect to the great number of such operations. Very few cases arise when a man goes into a bank and says, "Give me the gold for my note." That is very rarely done, and even then when it is done you will probably find that the bank in addition to taking your note will take your check in order to get the gold, so as to get that book credit which was created by the discount, off its books.

The CHAIRMAN. Even if they did not do that they would credit it to "bills receivable," and charge the cash, which is a part of the available funds——

Senator HITCHCOCK (interposing). Of course there are a large number of cases——

Mr. FLANNAGAN (interposing). You generally get a cashier's check, if you have no account with the bank.

Senator HITCHCOCK. Not necessarily. But this is an inconsequental question, after all.

Senator REED. Well, now, but is not this true, as to general operations, in the great mass of banking done by merchants: The merchant goes to the bank and arranges for a credit—that they will "carry" him for a certain amount of money. He needs $10,000 in his business. He gives his note for $10,000, and that amount is put to his credit upon the books of the bank. He checks against that and continues to put money into the bank, and finally his balance runs down too low, and again he goes and borrows, and he keeps that up until he gets up perhaps to about the limit of his credit, and there stands all the time on the books of the bank a balance to him which is made up or which grows out of the fact that his notes are in there and the bank has carried over on its books an entry showing that the bank owes him a certain amount of money. That is the way is it generally done, is it not?

Mr. FLANNAGAN. Yes.

Senator REED. So you speak of it—it has been spoken of as credit here, whereas you say that in truth instead of being a credit it is a debt of the bank to him?

Mr. FLANNAGAN. Of course.

Senator REED. And a little further than that: The bank owes 1,000 people or 10,000 people for the very money that it has carried over and credited to A B upon his notes. He has borrowed money that the bank already owed to others. So it is pretty nearly all credit.

Mr. FLANNAGAN. Yes, sir; the whole banking business is swapping debts.

Senator REED. Yes.

The CHAIRMAN. I would like to call attention to the fact that when the loan of the New York banks increased $500,000 you immediately find, as an actual fact, that the deposits increase to a like amount.

Mr. FLANNAGAN. Yes.

The CHAIRMAN. And that is an almost invariable rule?

Mr. FLANNAGAN. That is right.

The CHAIRMAN. For the reason that when these loans are made they are redeposited in the same bank or in another bank or, if drawn in cash, the cash is immediately paid to liquidate debts and is then by other persons redeposited in the same way, so that they instantly reappear as an increase of deposits in almost parallel columns.

Mr. FLANNAGAN. It is almost invariably true that whenever you see an increase in deposits you will also see in the same statement a corresponding increase of loans and discounts. It means that those credits—book credits—are created by loans and discounts.

Senator HITCHCOCK. Can you tell us why it is that the European banks distinguish between deposits proper and deposits which grow out of loans, whereas American banks do not so distinguish?

Mr. FLANNAGAN. I can not tell you why it is so. They call it in the Scotch banks a "cash credit."

Senator HITCHCOCK. Generally they call it "accounts current." If I go to a bank in Europe and borrow $10,000, which is placed to my credit, that is called an "account current," but in an American bank it is called a deposit. They distinguish between the two kinds of deposits in European banks.

Mr. FLANNAGAN. I do not know why that is so; in fact, I did not know that all the European banks attempted to keep these separate.

Senator HITCHCOCK. They do.

Mr. FLANNAGAN. But we in this country do not make any distinction between the credit that is created as the result of a discount and the credit that is created as the result of a deposit of circulating notes, of checks, or of gold. In our banks we do not draw any distinction. We call them all "deposits."

Senator POMERENE. Well, should there be any distinction?

Mr. FLANNAGAN. I do not think it is practicable with us. I do not know how we could do it.

Senator HITCHCOCK. Well, it would show, then, whether a bank was merely lending its credit to excess, would it not?

Mr. FLANNAGAN. I do not know how we could draw the distinction, however, in the bookkeeping under our method. I do not know how it could be done. Nor do I see any special advantage in having it done, because each form of credit ought to be readily converted into gold.

Senator HITCHCOCK. You do not know the reason that moves the European banks to separate them?

Mr. FLANNAGAN. I can not tell you. I really do not know what you state to be the fact, of my own knowledge. I am not familiar with that.

Senator HITCHCOCK. It is done in all their statements, and it is also set forth in the report of the Monetary Commission as a fact.

Mr. FLANNAGAN. Yes. Shall I continue my statement, Mr. Chairman?

The CHAIRMAN. Yes; if you please.

Mr. FLANNAGAN. The principal change which I would urge for your earnest consideration is one which will allow all national banks to exercise all the normal functions of banking. These functions are a growth and development inherent to the business itself, and the bill restricts one function which in my opinion should be made normal. I refer to the function of note issue. Banking everywhere must con-

sist of the three functions of discount, of deposit, and of note issue (or circulation). I do not mean that every bank must exercise all three functions, but I do maintain that the three functions must necessarily be exercised in every country where any credit system can be efficient and satisfactory.

All credits systems everywhere are but variations of the substitution of debt for coin, and in this substitution the three banking functions named are essential.

The bill before you contemplates the limitation of the function of note issue to the Federal reserve banks after 20 years.

I believe this is a mistake. You allow the temporary continuation of the present bond-secured currency, not because it is good—for our greatest financial ills can be traced to its evil influence—but because we must gradually get out of the meshes in which it has entangled us, and therefore you provide for its gradual extinction. While doing this, is it not wise to provide the gradual substitution of a more complete and perfect system, built upon our experience?

Our national bank system, with the exception of the currency provision and the counting of debts from other banks as reserves, has proved of inestimable good.

It has aided in cementing the country into one united whole, while it has given opportunity to individual initiative.

If we can strengthen this individuality and at the same time avoid the weakness which comes from excessive self-reliance I believe the present will mark an epoch in our industrial and commercial history, and that this measure will be the beginning of an era of great prosperity, and will eventually lead to our acknowledged supremacy in the financial world.

When you consider the fundamental nature of banking, which is the substitution of its own debts for other debts, and that its debts, whether in the form of deposits or circulating notes, are used by the people as a substitute for coin, it is apparent that the bank function of note issue should be exercised exclusively for the accommodation and convenience of the customer. He should be free to ask this form of debt—circulating note—if his business requirements demand it, and the bank should be equally free to give it. Or, in other words, deposits should be convertible into currency at the will of the creditor.

The only matter which should concern the legislator, as the representative of the people, is that both forms of bank debt, deposits and circulation, should be reasonably safe.

The substitution, or conversion of one form into the other, should be left to the parties in interest, or, in other words, to the requirements of trade.

Now, the individual banks come into direct daily contact with all the people—their customers; they know the people's wants and requirements, and should be put in the position to reasonably supply them. As your bill now stands, you have no method of creating a circulating note in response to trade demands except through another bank function of discount, and the intervention of two banks. These two functions are not necessarily connected. A discount, or the substitution of the bank's debt payable on demand for the customer's debt payable in the future, does not necessarily imply that the bank's debt is wanted in the form of a circulating note.

The exchange and transfer of bank debts in the form of deposits by means of the cancellation of checks, to the extent of over 500 millions of dollars daily, through the clearing houses of the country proves just the contrary.

I think the method of furnishing the member banks the circulating notes of the reserve banks most advisably thought out, and I would not change this, but hold this provision as the reserve credit of the country.

Let there be a bank for banks—one in each district—but do not have so few as to make one section of the country dependent upon another for its normal development. In addition to this, I should like to see every national bank which is a member of the Federal reserve system have the right of note issue, not exceeding its capital stock, under similar safeguards which you have provided in the way of collateral security for Federal reserve notes.

I should like to see 50 per cent gold reserve required to be held against these bank notes, not only to insure elasticity, but primarily to prevent any inducement per se as a matter of profit from such issuance. Such inducement was a cardinal defect in the original plan under which our national bank note currency was inaugurated. If you will confine this privilege of note issue to member national banks, I believe you will hear no more complaint about enforced stock subscriptions to Federal reserve banks. If you will limit the privilege to such banks as have 50 per cent of their capital stock invested in United States bonds deposited for circulation, the market will be maintained for 2 per cent bonds until you retire them at the rate of 5 per cent per annum as the bill provides. If you will allow these gold reserve bank notes to be issued pari passu with the retirement of the bond-secured notes, the aggregate volume of notes being limited to the amount of capital stock, you will provide now a true elastic bank currency as a portion of the existing circulating medium and, I believe, add largely to the flexibility of the outstanding bank currency.

At first blush it may be thought that this provision will produce inflation, because each individual bank would endeavor to get out and keep its notes in circulation to the full limit.

As a matter of fact, there can be no inflation of bank currency with gold redemption. With a requirement of 50 per cent gold reserve and redemption at the district reserve bank the profits arising from circulation could not be of sufficient inducement to prompt its issuance, and issuance would therefore come only through the legitimate demands of customers.

Under such restrictions as indicated, the total amount of national bank notes which could be issued with the present capitalization if every bank avails of the privilege to the maximum amount, would be $331,885,000, against which one-half of that amount would have to be held as a reserve in gold.

Senator HITCHCOCK. Will you please restate that? I did not quite catch your meaning.

Mr. FLANNAGAN. Under such restrictions as indicated, the total amount of national-bank notes which could be issued with the present capitalization, if every bank availed of the privilege to the maximum amount, would be $331,885,000, against which one-half of that amount would have to be held as a reserve in gold.

Senator HITCHCOCK. You are speaking of the individual banks now?

Mr. FLANNAGAN. Of course, what I am arguing for is to give the individual banks the right to issue circulation within certain limitations.

Senator BRISTOW. He is contending that the individual banks ought to have the right of issue just the same as the bill gives the reserve banks.

Mr. FLANNAGAN. Yes; under the same restrictions except 50 per cent of gold reserve.

Senator HITCHCOCK. Then you would have two classes of bank notes.

Mr. FLANNAGAN. Oh, no. You might call it a gold-reserve note; but the result of it would be that it would make all the present national-bank currency be redeemed as trade required; and I believe would give them a flexibility which they do not now possess.

Senator HITCHCOCK. Let me get your idea. Your idea is to have the present national-bank currency retired gradually, as is proposed in the present bill?

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. Then you would allow the individual bank the right to issue notes to the extent of their capital stock, upon the creation of a gold reserve of 50 per cent.

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. Then you would also allow the 12 Federal reserve banks to issue up to 50 per cent of their capital?

Mr. FLANNAGAN. I do not believe there is any limitation in the bill as to the issue of notes by the Federal reserve banks; but I would have a limitation as to individual banks; I would not allow their circulation, which would include both the circulation based upon United States bonds as now and the gold-reserve notes, both combined to exceed the capital stock of the individual bank. I want to meet the ordinary daily requirements of trade. It should not be necessary, in order to get a circulating note, that a bank, desiring to oblige its customer, has got to go to the reserve bank and get a discount, except when the circumstances or general conditions of the country require it. Keep it as a reserve credit—not for the daily operations.

Senator HITCHCOCK. Of course you would be substituting for a bond-secured currency a currency which would have no security.

Mr. FLANNAGAN. I beg your pardon. I say that they have to deposit 100 per cent of discounted notes with the reserve bank before the Comptroller of the Currency would issue them these incomplete notes.

Senator HITCHCOCK. But you did not state that, I think.

Mr. FLANNAGAN. Well, I said under the restrictions that you have already made for the Federal reserve notes, which implied that. But when I read the proposed amendment to the bill you will see that is made very plain, I think, Senator Hitchcock.

In other words, the circulating bank debt, or extension of credit under this provision, might be $165,943,000, which amount, being about one-half the average amount of the daily exchange or cancellation of bank debts through the New York Clearing House, could hardly be called an unsafe extension of credit.

I firmly believe that this provision, if made, will constitute the keystone to the arch of the admirable system you have conceived,

and that at the end of 20 years, when the inelastic, rigid, bond-secured currency shall have been retired, we shall have a complete and perfect system, composed of independent banks, organized on true economic principles, with an elastic currency, on a gold basis, responsive to all ordinary demands, so united under Government control by the Federal reserve act as to be a tower of commercial strength which can defy financial storm and stress, through the confidence engendered by such a combination.

Senator BRISTOW. Do you desire to take up now the amendment which you suggest?

Mr. FLANNAGAN. Now, the amendment proposed is on page 36 of the bill as reported to the House, after the word "obligation," on line 8.

These will be additional paragraphs to section 19——

Senator HITCHCOCK (interposing). Before you get to that amendment, Mr. Flannagan, Senator Bristow wanted to ask you a question.

Senator REED. Would it not be better for Mr. Flannagan to read his amendment first?

Senator BRISTOW. Yes; if his amendment relates to the subject which he has discussed.

Mr. FLANNAGAN. Certainly; that is just what it is.

Senator BRISTOW. What page of the bill?

Mr. FLANNAGAN. Page 36 of the new bill, as passed by House, at the end of line 8, after the word "obligation," I suggest to add a provision for these additional gold-secured notes.

Senator SHAFROTH. Is it a long section that you are adding?

Mr. FLANNAGAN. Yes; several paragraphs.

Senator SHAFROTH. Will you read that?

Mr. FLANNAGAN (reading):

Any national banking association being a stockholder of a Federal reserve bank—

And, mind you, I want to confine it to member banks, to give them that exclusive privilege, so as to induce all existing banks to come in under the bill.

Senator POMERENE. Do you mean by that that any State banks which might desire could come into this system as well?

Mr. FLANNAGAN. They can not issue notes unless they become national banks.

Senator POMERENE. That is just what I want to make clear, because this bill provides that the State banks might come in. I noticed in your statement that this was to be national banks, and I did not know whether you did extend it to any other banks.

Mr. FLANNAGAN. This is an additional privilege of circulating notes that you are giving the national banks which are members of the Federal reserve system, which will serve to induce them to come in, and which may also induce the State banks to become national banks.

Senator POMERENE. That is the point that I wished to make clear.

Mr. FLANNAGAN (reading):

Any national-banking association being a stockholder of a Federal reserve bank——

Senator REED (interposing). That ought to be a "member" bank. But go on.

Senator SHAFROTH. That is the definition of a "member" bank.

Mr. FLANNAGAN. That makes it one.

Senator HITCHCOCK. No; because he excludes State banks.

Mr. FLANNAGAN. I say, "Any national-banking association being a stockholder of a Federal reserve bank," because I am excluding State banks unless they do become national banks.

Senator REED. That is right.

Mr. FLANNAGAN (reading):

Any national banking association being a stockholder of a Federal reserve bank, and having on deposit with the Treasurer of the United States an amount of United States bonds as security for circulation at least equal to 50 per cent of its capital stock, may indorse and lodge as collateral security with the Federal reserve bank of its district any bills and notes discounted by it in the usual course of business and in accordance with law—

I put that "in accordance with law" in on account of that 10 per cent limitation of liability.

having a maturity not exceeding four months, and thereupon may receive from the Comptroller of the Currency incomplete circulating notes in the form now authorized to the face value of such discounted paper thus deposited.

But said circulating notes shall not be signed by the officers of the bank receiving the same, nor be issued or placed in circulation, except as and when a reserve fund in gold coin or United States gold certificates is provided by being segregated and set apart for their redemption to the extent of 50 per cent of the amount issued and outstanding.

Such gold reserve shall consist of at least one-half of the required amount, always kept intact in the vaults of the issuing bank; the remaining half may consist of balances due either from the Federal reserve bank of the district in which the issuing bank is located or from the United States Treasury.

The notes thus issued shall be redeemable on presentation at the counter of the issuing bank and also at the Federal bank of the district in which the said bank is located and at the United States Treasury.

In case of liquidation, whether voluntary or involuntary, the payment of all outstanding notes must be provided for by a deposit of lawful money with the United States Treasury from the assets of the liquidating bank before any distribution of assets to other creditors.

The amount of circulating notes of any bank delivered by the Comptroller of the Currency and outstanding at any one time, including those hereby authorized and those secured by United States bonds, shall not exceed in the aggregate the amount of the capital stock of the issuing bank and to the extent that circulating notes secured by United States bonds are retired by the redemption or funding of 2 per cent bonds under the provisions of this act other circulating notes secured as in this section provided may be issued to replace the amount thus retired.

Any member bank shall have the right of substitution at any time before maturity of an equal amount of dicounted paper for any deposited with the reserve bank as specified collateral for its circulating notes.

Now, if you consider that amendment is wise, you would have to make a change also in line 17, page 35, of the bill, which is necessary (if this amendment is adopted) in order to make the provisions conform.

Senator HITCHCOCK. What line?

Mr. FLANNAGAN. Line 17, page 35, by inserting after the word "outstanding," the words "which are secured by a deposit of United States bonds."

Senator BRISTOW. Were you through with that?

Mr. FLANNAGAN. I was through with that amendment. But there are other amendments which I would suggest.

Senator BRISTOW. Why should these individual banks—why is it necessary for a man to have anything to do with a central bank in order to get this currency? Why not make a similar provision, or provisions, for a note issue, so that it can be taken out by direct

transactions with the Treasury, just as the note issues are provided for now?

Mr. FLANNAGAN. Well, I do not believe that it is wise, Senator, to undertake to issue Government circulation. If you will allow me——

Senator BRISTOW (interposing). Well, I do not mean Government circulation. You propose a bank circulation.

Mr. FLANNAGAN. Yes.

Senator BRISTOW. As we now have, except on a different principle. We have bank circulation now.

Mr. FLANNAGAN. Well, it is a sort of "bobtail" bank circulation, under restrictions which make it inefficient for commercial purposes.

Senator BRISTOW. But it is a bank circulation; and the individual banks provide for currency when they want it, according to certain legal requirements?

Mr. FLANNAGAN. Yes.

Senator BRISTOW. Now, you propose that the individual banks should still have this privilege of issuing a currency, but a different kind of currency and according to different methods. But, in order to do that, there is created this artificial, and it seems to me unnecessary, institution called a "reserve bank." Why can not the individual bank provide for this circulation by dealing directly with the Comptroller of the Currency?

Mr. FLANNAGAN. I will tell you, Senator. The Federal reserve bank offers a great many advantages. It is a combination of all the banks for times of stress. It carries out the same idea that clearing houses have found efficient in times of panic heretofore. So that it would be a mistake, in my opinion, to attempt to do away with the Federal reserve banks and attempt to have the individual banks deal direct with the Treasury in this matter.

And I think that is a good reason. I think you want to keep the Federal reserve banks as the reserve credit of the country—the reserve ability to incur a debt which will circulate as money; a place where there is such unbounded confidence that, no matter what happens, when the Federal reserve bank comes with the Government behind it (the Government being the source of all credit) there can be no question or doubt.

Senator BRISTOW. Well, of course you put the Government behind this Federal reserve bank in order to steady public confidence in it. Now, the Government is behind the present national-bank circulation—Government bonds are—and everybody has confidence in those notes now. Nobody ever hesitates to take them. A man does not look to see whether he is getting a gold certificate or a bank note. It is all the same to him.

Now, I can not see why the credit of the Government behind the individual bank is not just as effective, so far as public confidence is concerned, when it is directly behind the bank, as it would be to put it behind the individual bank through this roundabout way.

Mr. FLANNAGAN. Well, in times of panic, what would you do?

Senator BRISTOW. Let the bank deal directly with the Government.

Mr. FLANNAGAN. Would you have each bank deposit the security for its circulating notes direct with the Government?

Senator BRISTOW. Direct with the Government, according to certain stipulations and legal requirements?

Mr. FLANNAGAN. If you want the Government to go into the banking business, and be in a position to exercise direct control instead of through these regional reserve banks, we could do it that way; though I do not think the system is nearly so good as the one now suggested. I think it is much better for the Government to take direct control of 12 banks than of 7,000.

Senator BRISTOW. It would not have any more control of the 7,000 than it has now, would it, except that its facilities would be somewhat enlarged?

Mr. FLANNAGAN. Well, I do not think it is practicable; that is my thought; but I do not profess to be infallible, you know. It is my opinion that it is very much better to maintain the Federal reserve banks.

Senator BRISTOW. I desire to say that I am in sympathy with your idea that the individual bank should have this right. I do not think the individual bank ought to ask any other bank whether or not it can issue a note. I think it ought to have the same right that the Federal reserve bank has got in dealing with the Government, and should not have to go through this reserve bank in getting a favor from the Government. That is my objection. I think the individual bank ought to have a right to deal direct with the Government, and not be under any obligation to another concern.

Mr. FLANNAGAN. I think, too, the individual bank ought to have a right to deal direct with the Government and not be under obligations to any other financial concern. But do not these banks represent the other banks? Is not that a simple consolidation of the other banks?

Senator BRISTOW. That is what I object to. When you consolidate, you give control and influence and domination to a very large degree, and I think we ought to preserve the democracy of the national-bank system as it is to-day.

Mr. FLANNAGAN. I believe in maintaining the individuality of the banks. I certainly do, as I have stated; but I do believe that it is not only very desirable but necessary to have them united through the Federal reserve banks, or in some other manner.

Senator HITCHCOCK. The commercial paper which the individual bank would put up as security for notes would be deposited, not with the United States Government, but with the reserve bank.

Mr. FLANNAGAN. With the Federal reserve bank.

Senator HITCHCOCK. Would it be obligatory upon the Federal reserve bank to issue the circulation against those notes?

Mr. FLANNAGAN. The incomplete circulation comes from the Comptroller of the Currency now.

Senator HITCHCOCK. There would be no discretionary power, would there?

Mr. FLANNAGAN. No; there is none to-day, except you have to put up Government bonds.

Senator HITCHCOCK. But should that be done in the case of commercial paper?

Mr. FLANNAGAN. That is a question in your wisdom to be decided; whether you decide you will allow banks with a margin of 100 per cent discounted notes and 50 per cent gold, which they have to

have in addition; whether it is not entirely safe to allow the banks to give the paper they receive in the ordinary course of business, so as to let the notes come as a matter of right to them. That would be my opinion; to let them come as a matter of right to the individual banks, so they can issue circulation upon the deposit of their regular paper, which is to be paid at maturity, and that is the reason I give the right of substitution.

Senator HITCHCOCK. You would not allow the officers of the reserve banks to say to the individual banks:

We will refuse to loan you this currency because your notes are not good.

Mr. FLANNAGAN. The Federal reserve bank does not issue; they are mere custodians of this paper.

Senator HITCHCOCK. Well, then, refuse to deliver it.

Mr. FLANNAGAN. If you think they ought to come into more direct contact with the Government, you might specify the Federal reserve agent where the Federal reserve bank now deposits its collateral notes. If you think that is all right, it amounts to the same thing.

Senator HITCHCOCK. The idea rather appeals to me, providing it really gives to the individual bank a method by which it can secure a limited amount of an additional currency, as a matter of right.

Mr. FLANNAGAN. That is what I believe will be the case under this proposed amendment.

Senator SHAFROTH. That is permanent currency you are referring to?

Mr. FLANNAGAN. Certainly. To begin with, you will get 5 per cent of it additional every year when you retire these 2 per cent bonds, unless the banks choose now to issue an additional circulation, if the demands of trade require it. You may be sure this additional currency will not be issued unless trade demands require it. It will not be issued as a matter of profit as the old circulation was at first. As you retire 5 per cent, say, $35,000,000 a year, you can put this in place of it, so that at the end of 20 years you will have a true bank circulation.

Senator SHAFROTH. Without any contraction?

Mr. FLANNAGAN. How do you mean?

Senator SHAFROTH. The currency will take its place equal to that amount?

Mr. FLANNAGAN. Yes.

Senator REED. I want to get this in my mind. I am not sure that I have it there. I am greatly interested in your statement.

Mr. FLANNAGAN. There are several amendments here which I would like to suggest.

Senator REED. Are you anxious to get away?

Mr. FLANNAGAN. No; I want to leave at 4 o'clock this afternoon. I have plenty of time.

Senator REED. Then let me work out my proposition by way of illustration. Let us say that you are a banker in New York City and your bank has a capital of $1,000,000. You want to get $1,000,000 of this currency——

Mr. FLANNAGAN. Now, which currency are you talking about?

Senator REED. The currency that you propose under this method.

Mr. FLANNAGAN. All right; go ahead.

Senator REED. And the Government has given you the right, as you propose, to have that $1,000,000 of currency. Now, just what would be the modus operandi of your getting that money?

Mr. FLANNAGAN. You want $1,000,000 of currency and you are entitled to it under your restrictions as to capital.

Senator REED. You have $1,000,000 of capital; you want $1,000,000 of currency to use; you are a member of the regional bank.

Mr. FLANNAGAN. Yes.

Senator REED. How would you go at it under your suggestion to get this $1,000,000 in currency?

Mr. FLANNAGAN. I could not get any unless I placed on deposit with the Treasury of the United States $500,000 Government bonds.

Senator REED. Any kind of Government bonds?

Mr. FLANNAGAN. Yes, except those excluded from the circulating privilege. I need not have circulation issued against this, $500,000, but I must have that on deposit as security. So that, under the circumstance you name, I could only get $500,000 circulation.

Senator REED. You could get that on the bonds?

Mr. FLANNAGAN. No; I am talking about in addition now. If I had $500,000 of bonds, I am entitled to $500,000 of circulation, which I may have outstanding or may not have outstanding. Take, for instance, the Chemical National Bank; I think they have $50,000 bonds deposited, but they have no circulation outstanding. But, we will suppose, Senator, that the bank with $1,000,000 capital has already $500,000 of national bank notes outstanding, for unless they have the bonds deposited with the Treasury sufficient to get $500,000 notes outstanding they can not get this circulation. That is the point, is it not? You want me to follow out what you would do, do you not?

Senator REED. I would really prefer that you would start with a brand new bank that is organized to-morrow with a capital of $1,000,000 and you want $1,000,000 of circulation. How would you get it under this bill?

Senator SHAFROTH. That is under your amendment to this bill?

Senator REED. That is right, under his amendment to this bill.

Mr. FLANNAGAN. $500,000 I would have to get by the purchase of 2 per cent bonds.

Senator REED. Or any other kind of bonds you propose.

Mr. FLANNAGAN. Two per cent United States bonds, because they are the cheapest.

Senator REED. What would you do with those bonds?

Mr. FLANNAGAN. I would deposit them with the Comptroller of the Currency, and they would be transferred in trust to the Treasury of the United States and held as they are now.

Senator REED. Very well.

Mr. FLANNAGAN. I would then get $500,000 of circulation secured by United States bonds. You understand the purpose of making that restriction, do you not? It is to maintain the market price of 2 per cent bonds. I am entitled to $500,000 additional. I can not get it until I have discounted paper. I have got to go into operation. I have got to go and lend my customers $500,000 and get their paper with my capital, and when I do get among my assets $500,000 of

commercial paper—discounted paper—then I can go to the Federal reserve bank and say:

Here is $500,000 of notes I have discounted; I want you to certify to the Comptroller of the Currency that they are in your possession as collateral security for additional circulation I am going to ask for.

The Federal reserve bank will certify to the Comptroller of the Currency that fact; the Comptroller of the Currency then sends me $500,000 of notes printed like they are to-day.

Senator REED. What about the gold reserve?

Mr. FLANNAGAN. I have not got to that yet. When I get those notes from the Comptroller of the Currency they are incomplete. They are not signed by the officers of the bank; they are not ready for issuance until signed, and before I can sign and issue those notes I have to provide $250,000 of gold from somewhere. Having provided it, I can put $125,000 with the Treasury, or I can put $125,000 with the reserve bank as a deposit, and then I am entitled to issue $500,000 of notes. Of course I need not apply for all nor issue all at one time.

Senator HITCHCOCK. And you keep it in your own vaults, but segregate it?

Mr. FLANNAGAN. I may leave $125,000 in my own vaults if I issue $500,000, or one-fourth in gold of the amount I do issue.

Senator HITCHCOCK. But you do not do so.

Senator POMERENE. Let us say in the reserve bank.

Mr. FLANNAGAN. Let me see if I can not get that straight.

Senator REED. I do not think it is straight now in the record.

Mr. FLANNAGAN. It is very plain in my own mind.

Senator POMERENE. I suggest that the stenographer read Mr. Flannagan's answer in order that the record may be correct.

Senator REED. If you will let me ask these questions you will get it as straight as a string.

Senator POMERENE. Well, I think we owe it to this witness to have his answer read.

The CHAIRMAN. Very well, the stenographer will read.

(Thereupon the stenographer read the answer by Mr. Flannagan, as follows:)

Mr. FLANNAGAN. I have not got to that yet. When I get those notes from the Comptroller of the Currency they are incomplete. They are not signed by the officers of the bank; they are not ready for issuance, and before I can sign and issue those notes I have to provide $250,000 of gold from somewhere. Having provided it, I can put $125,000 with the Treasury and——

Mr. FLANNAGAN. No; that is wrong. I did not state it right if I said "and." I can put $125,000 with the Treasury or with the reserve bank, and retain $125,000 in my own vaults.

Senator SHAFROTH. I would like to suggest to the stenographer that in order to have the record in proper form Mr. Flannagan's remarks in regard to the reserves should be stricken out.

Senator REED. Now, I would like to understand this, and I do not, and for that purpose I will ask a question or two, with the permission of the committee. Let us assume that the Government of the United States has established this regional bank system.

Mr. FLANNAGAN. Yes.

Senator REED. You desire to organize a bank and do organize one on a capital of $1,000,000. Your capital is put in and your bank is ready to do business?

Mr. FLANNAGAN. Yes.

Senator REED. You now want $1,000,000 of money. The Government has already printed the money.

Mr. FLANNAGAN. It is all in circulating notes. Of course it is not money.

Senator REED. Yes; but that is either in the Treasury or on deposit, or in the custody of the Government's agents who are representing the Government in the regional banks, so that the paper is prepared and printed. That is correct; that is a fact, is it not?

Mr. FLANNAGAN. No; there is no provision in the present law for national-bank notes to be lodged with the regional banks, but with the Comptroller of the Currency.

Senator REED. Very well. The Government has the currency already printed and in the hands of the Comptroller of the Currency.

Mr. FLANNAGAN. That it right.

Senator REED. You go out in the market and buy $500,000 of national bonds.

Mr. FLANNAGAN. United States bonds, yes.

Senator REED. Yes; and you deposit those bonds with a Government agency that is provided for by law.

Mr. FLANNAGAN. The Comptroller of the Currency, as is now provided by law.

Senator REED. Yes; and thereupon there is issued and delivered to you $500,000 of this circulating medium.

Mr. FLANNAGAN. All in incomplete bank notes, which my bank can issue.

Senator REED. Your bank can issue them when the officers of the bank sign them?

Mr. FLANNAGAN. Yes.

Senator REED. That gives you $500,000?

Mr. FLANNAGAN. Yes.

Senator REED. Now, you want $500,000 more?

Mr. FLANNAGAN. Yes; or any portion of that amount.

Senator REED. Well, let us say $500,000.

Mr. FLANNAGAN. All right.

Senator REED. You propose then, you shall take the notes of your customers and indorse those notes?

Mr. FLANNAGAN. That is right.

Senator REED. And carry them where?

Mr. FLANNAGAN. To the Federal reserve bank of my district.

Senator REED. And deposit them there with the Government's representatives?

Mr. FLANNAGAN. Right.

Senator REED. And thereupon that bank will certify to the Comptroller of the Currency that you have deposited $500,000 of this paper?

Mr. FLANNAGAN. Of this discounted paper.

Senator REED. Of this discounted paper?

Mr. FLANNAGAN. Yes, sir.

Senator REED. And it would then become the duty of the Comptroller to send to you $500,000 of currency, which is complete except that your bank officers must sign it?

Mr. FLANNAGAN. That is correct.

Senator REED (continuing). And emit it?

Mr. FLANNAGAN. Yes, sir.

Senator REED. When you have $250,000 of gold reserve piled up in your vault and segregated and set aside as a reserve for that particular $500,000 you can then sign that $500,000 of paper and pay it over your counter?

Mr. FLANNAGAN. Yes, sir.

Senator REED. Now, that is the method, but of course that could be varied by reposing in the Government agent who is representing the Government in the regional bank the right to pass upon the character of these notes you have put there if we wanted to impose that duty upon him?

Mr. FLANNAGAN. Yes; as collateral.

Senator REED. Don't you think that something in the nature of a supervision or inspection of that paper is necessary?

Mr. FLANNAGAN. Well, I will tell you why.

Senator REED. That is what I am interested in.

The CHAIRMAN. You mean to say that you do not when you shake your head?

Mr. FLANNAGAN. I do not. I think you ought to give the banks the right to issue under restrictions named, as a matter of right, without having some other person or authority to pass upon the collateral paper. To begin with, the bank itself—I am talking about my bank now, the one with $1,000,000 capital—and I issue these notes, which can not be done, unless they provide for their redemption both at the Federal reserve bank of the district and at the Treasury of the United States, and at my own counter. So it is not likely that we are going to incur that debt unless we have something behind it.

Very well. Now, in the ordinary course of business, banks do not take bad paper intentionally. It is not to their interest to do so. Why should they want to do so? I do not see that you ought to make it incumbent upon the man removed 100 miles away to pass upon local paper.

Senator REED. Let me suggest the reason and see whether I am not right?

Mr. FLANNAGAN. Yes.

Senator REED. Of course we have all been talking about honest bankers, possessed of ordinary good common sense, and some business acumen, but you have to think about another class of men. Suppose that a rascal is running a bank, or a man in desperate straits is running a bank, and suppose that he concluded that he had to have some more money, and he would just have the clerks of this bank or other people who are worthless sign up a lot of paper send it down, and get this money on it. There might be some heavy losses occasioned by that, unless there was somebody at least to exercise some kind of supervision. Is that not a danger?

Mr. FLANNAGAN. Well, if you want to provide against rascality, beyond the punishment that is provided——

Senator REED (interposing). Don't we always have to provide against rascality in every transaction we enter into?

Mr. FLANNAGAN. I am trying to meet your view, to see if there is some method of doing away with the objection of having a man far removed to pass upon it. That is what I am trying to do. How

would it do to have such paper certified by the individual members of the board of directors of the member bank that they approved it? I might suggest something of that sort. There might be restrictions of that sort, but I believe that you ought to preserve the right of the individual banks to deposit collateral taken in the ordinary course of business.

Senator REED. I believe absolutely and have been arguing and hearing in a sort of a way for days that the nearer we can come to giving the individual bank certain rights which it can exercise without first submitting itself to some kind of central control the better. However, I wish you would think about some kind of a check or safeguard upon the character of the notes or discounts which are offered as collateral.

Now, I wanted to take up another thought with you and see just where we come out on that. You put $1,000,000 of cash into the vaults of the bank for the stock. You have $1,000,000. You take $500,000 of that and invest it in Government bonds, which, of course, locks up $500,000, so far as you are concerned, for which you get $500,000 in circulation, of course.

Mr. FLANNAGAN. We get currency back for it.

Senator REED. Then you have to hold the gold reserve back of the other $500,000?

Mr. FLANNAGAN. Yes.

Senator REED. Which is equal to $250,000?

Mr. FLANNAGAN. Yes.

Senator REED. This releases one-half of that money to you and you can then get 75 per cent increase over your original capital, but of course one-half of your original capital has to be invested in these low-interest-bearing bonds. You do gain 75 per cent, though, in a way. You gain an actual increase of 25 per cent, an actual doubling there; on the other you have to put the bonds up.

Mr. FLANNAGAN. Twenty-five per cent margin is all you have, Senator, over and above the actual capital invested. It seems to me that is the way it figures out. It is really 25 per cent gold reserve on your total circulation; it is 125 per cent in Government bonds and collateral notes and gold for every note that is issued. Is not that right?

Senator REED. I think you are right about that.

Senator BRISTOW. Will you not repeat that last statement?

Mr. FLANNAGAN. I said 125 per cent as security, either in Government bonds, gold, or discounted notes, for every note that is issued.

Senator BRISTOW. It would be equivalent, would it not, to a 50 per cent margin on the notes, on the deposited notes?

Mr. FLANNAGAN. Fifty per cent gold reserve on the additional notes you issue over and above the issue on your Government bonds makes 125 per cent on the whole issue, including the collateral discounted notes deposited with the reserve bank.

Senator REED. Would there be any objection to requiring the member bank which is issuing this money to deposit that 50 per cent gold reserve along with the notes that it takes for discount in the regional bank?

Mr. FLANNAGAN. Keeping it all deposited there? You have to redeem them at your own counter.

Senator REED. And therefore you want it there?

Mr. FLANNAGAN. Yes; you would not then have any there. As suggested, you have three places for redemption for all bank notes. That is to give uniformity of circulation at par everywhere.

Senator REED. What is the objection then to making the bank notes only redeemable at the regional banks and having the gold there?

Mr. FLANNAGAN. You might do that.

Senator REED. So that this gold reserve would naturally be in the hands of the Government. Would that be workable?

Mr. FLANNAGAN. I think that a margin of 25 per cent, which is a pretty good margin, is sufficient. I do not think that you want to destroy the independence of the individual bank entirely in that respect. I think you want to make them feel that you are doing the square thing. You do not want to treat them like they are all suspicious characters.

Senator REED. I do not mean that. Let us see if I have invoked there anything that is not invoked in every day's business between the banks themselves and with their customers. A bank takes a man's promissory note, not because they insist he is a rascal, but because there are occasional rascals and because it is necessary to have a record of the transaction. The bank, too, requires collateral to be deposited time and again with it, not because it is dealing with a rascal but because that is a matter of business safety. The Government of the United States now requires the banks to deposit bonds with it before it issues money, not upon the theory that the bankers are rascals, but because that is the business-like way to do it.

Now, when I say why not also deposit the gold reserve with the Government and make the notes redeemable at the regional bank where the gold is, it does not imply that the bankers are rascals and that we should treat them as rascals, but that we should simply follow the simple lines of good business and good government. Of course, it may be impracticable.

Mr. FLANNAGAN. I do not think that is desirable. You already have 100 per cent of every note that is issued represented by good assets of the bank specifically pledged as collateral security, and this 50 per cent gold reserve is in addition. That 50 per cent gold reserve, to my mind, is not required so much for security as for the purpose of preventing the unnecessary issuing of circulation. Let me illustrate: Suppose that money is worth 6 per cent and the bank is going to consider the question whether or not it is going to issue circulating notes. If it issues circulating notes it has to consider the 50 per cent gold reserves remaining idle, and hence an earning of 3 per cent on those notes, and I want that earning to be so small that there will be no inducement to get out circulating notes for the profit thereon. I prefer to make the restriction in the form of security rather than in the form of a tax, because if you make it in the form of a tax you are making the people pay it.

Senator HITCHCOCK. Let me ask you some questions right along the same lines. Do you know, Mr. Flannagan, why the redemption of these notes you propose to issue would pursue any different course from the redemption of the present national-bank notes?

Mr. FLANNAGAN. My thought is that banks when they want gold as reserve will send the notes of another bank to the reserve agent and build up their own reserve by using those notes.

Senator HITCHCOCK. That is what is done now?

Mr. FLANNAGAN. Yes. It is done through the Treasury now, is it not? My thoughts further were——

Senator HITCHCOCK (interposing). The fact is now that the Treasury every year receives 87 per cent of the national-bank notes that are outstanding.

Mr. FLANNAGAN. Oh, no. Every day?

Senator HITCHCOCK. Last year the Government received 87 per cent.

Mr. FLANNAGAN. You mean in a year?

Senator HITCHCOCK. Yes; I mean in a year.

Mr. FLANNAGAN. Oh!

Senator HITCHCOCK. That is due to this fact. That a bank out West in looking through its currency and desiring to ship currency to Chicago, is always willing to keep the gold certificates and hold the legal tender money, which can be used as a reserve. It will therefore send national bank notes to Chicago. The Chicago bankers will send them over to New York for credit, or to the Treasury for redemption to get legal tender money. Will not the same thing happen with these notes as you propose, so that the bank instead of receiving its own notes will simply give them up to the central reserve bank and they will really all be presented either to the Treasury or to the central reserve bank for redemption.

Mr. FLANNAGAN. That may be the effect of it.

Senator HITCHCOCK. If that is the case, then Senator Reed's suggestion that the gold instead of being kept in the vaults of the banks should be kept in the Treasury or in the regional reserve banks, where the real redemption will occur, is in point?

Mr. FLANNAGAN. But the bank has to preserve its reserve of 25 per cent in the Treasury or the reserve banks; and if they find they will have to keep more money there in order to get the notes redeemed they will have to send it there and get their notes back.

Senator HITCHCOCK. As I understand your suggestion, this gold reserve which you segregate against notes in the individual banks can not be counted as a reserve against deposits?

Mr. FLANNAGAN. No.

Senator HITCHCOCK. So it is no use to the banks for that purpose?

Mr. FLANNAGAN. No; it can not be of any use to the banks for that purpose.

Senator HITCHCOCK. If it is placed with the reserve bank it is available?

Mr. FLANNAGAN. That might be true. I would like to think a little more on that subject—whether or not it would be desirable to put all the note reserves in the Federal reserve banks and have exclusive redemption there.

Senator REED. Let me direct your mind to this: Whether 40 per cent or 30 per cent or, say, half of the gold reserve should be now with the Federal Treasury.

Mr. FLANNAGAN. We specify that. That is the way I have it now.

Senator REED. You specify that half of the gold reserves be deposited in the Treasury?

Mr. FLANNAGAN. Certainly; we have it specified that way now.

Senator BRISTOW. He said $125,000 of the $250,000 was to be deposited with the Treasury.

Senator REED. I had overlooked that.

Mr. FLANNAGAN. Yes; that is the way it is now. Now, let me take some of these other things.

Senator REED. Now, in regard to the examination of this paper. I take it that banks do not just on a moment's notice ordinarily want to issue this money; that they have generally a few days in advance in which to consider it?

Mr. FLANNAGAN. Oh, yes; or a few weeks.

Senator REED. Now, would there be any difficulty at all in having the bank examiner of that district called in by the bank to go over this paper?

Mr. FLANNAGAN. I think that is a good idea. I think that that is, perhaps, the solution. Let it be approved by the national-bank examiner of the district, if you want to do that.

Senator REED. If the members of the committee do not desire to ask any further questions, I would like to ask Mr. Flannagan one or two myself.

Mr. FLANNAGAN. I wanted to finish up some of the other amendments that I desire to suggest to the bill if you will allow me.

Senator HITCHCOCK. This plan of yours which you have outlined in these amendments does not interfere with the provisions of the bill which provides for the retirement of the present national currency, does it?

Mr. FLANNAGAN. Not at all. It just provides that you substitute one for the other. You allow national banks to have a circulation of 100 per cent of their capital. Those that have now 100 per cent of their capital in United States bonds can not get it, but those that have less than 100 per cent can get it.

Senator HITCHCOCK. To the extent of the difference?

Mr. FLANNAGAN. Yes, to the extent of the difference, and as the national bank note currency is retired under the provisions of the Federal reserve act, which I think is provided at the rate of 5 per cent per annum, any bank having these notes thus retired can issue other notes.

Senator HITCHCOCK. Notes under this bill may be issued to the extent of such retirement. Now then, ultimately, taking this hypothetical case of the bank with $1,000,000 capital—ultimately, after a period of 20 years, that bank will have $1,000,000 in circulating notes secured only by these deposits of discounted paper?

Mr. FLANNAGAN. Yes; discounted paper and 50 per cent gold reserves.

Senator REED. I am going to ask you to furnish the committee before you leave us, if you have the time——

Mr. FLANNAGAN. I am with you as long as you choose to have me; but I just want to finish what I have to say.

Senator REED. This is an interesting matter, and I would like to find the amount of gold this would actually gather and place in the custody of the Government, provided all of the banks were to avail themselves of the provisions of the proposed act—all the national banks I am speaking of.

Mr. FLANNAGAN. Right now it would be $335,000,000; that would be the maximum issue, of which 50 per cent would be $167,-

000,000. About $89,000,000 would be gold reserve in Federal reserve banks or treasury; but then if you continue, at the end of 20 years it would be one-fourth of the total capitalization of all national banks.

Senator REED. Yes; and if it was in proportion to the present capitalization——

Mr. FLANNAGAN (interposing). About $1,000,000,000.

Senator REED (continuing). It would then accumulate $250,000,000 more in gold which would actually be in the vaults of the United States?

Mr. FLANNAGAN. Yes; or the Federal reserve banks.

Senator REED. Yes.

Mr. FLANNAGAN. That is right.

Senator REED. That is what I would like to see built up.

Mr. FLANNAGAN. I think you will build a fine system if you will do that.

Senator SHAFROTH. At the end of the 20 years the notes which would be in circulation and secured by United States bonds would be retired, as I understand it.

Mr. FLANNAGAN. Yes; that is the present provision of your bill.

Senator BRISTOW. Then the only circulation would be circulation secured by the 50 per cent gold and the collateral?

Mr. FLANNAGAN. Yes; and the circulation of the national reserve banks, whatever that might be.

Senator BRISTOW. That is simply an emergency circulation.

Mr. FLANNAGAN. Well, it is not right to call it an emergency circulation, because in ordinary times you can go and get it if the discount operations work as the framers think it will; it will be done constantly.

Senator BRISTOW. Might not that result in a contraction of the currency?

Mr. FLANNAGAN. I do not see how it can; can you?

Senator BRISTOW. Well, suppose it was not profitable to the banks to keep out this circulation?

Mr. FLANNAGAN. Circulation ought not to go out by reason of a profit to the bank. Circulation is a mere form of debt of the bank which the customer may demand; if the customer demands it, the bank will have to furnish it. The profit, on the basis of 50 per cent gold reserve and 6 per cent discount rate, is 3 per cent less whatever the tax is, which I think is about one-half of 1 per cent now.

Senator REED. Going back to my illustration just once more. If this bill is passed and ultimately worked out so that the present bank currency is retired, and, if you wanted to organize your bank at that period, you would not take any Government bonds out at all?

Mr. FLANNAGAN. No. That amendment that I submit to you at the end of the retirement removes that necessity.

Senator REED. You would then simply take out $100,000 of the notes of A, B, and C, and upon them you would get issued $100,000 of unsigned currency; and then as fast as you accumulate a 50 per cent reserve you would emit currency?

Mr. FLANNAGAN. Yes, and you would do that gradually. You would not take your whole capital. I have known of banks to be organized without a penny by the organizers simply giving their

notes, having them discounted and with the proceeds purchase bonds and issue circulation.

Senator HITCHCOCK. Are you in favor of the retirement of the present national-bank-note currency?

Mr. FLANNAGAN. Most undoubtedly I am.

Senator HITCHCOCK. Your position there is not inconsistent with retaining the present bank-note currency, is it?

Mr. FLANNAGAN. Well, except the rigidity of this. My contention, Senator, is that the present bank-note currency is not the true function of bank issue. I think that before you can exercise it you have to invest your capital in Government bonds, which means that you must make a discount for the Government to the total amount of your capital.

Senator HITCHCOCK. Do you object to the present bank-note currency as a practical proposition because it is inflexible and not responsive?

Mr. FLANNAGAN. Yes, sir.

Senator HITCHCOCK. Can you give me an idea of the extent to which that bank-note currency should be restricted? What should its percentage be?

Mr. FLANNAGAN. That would be a mere guess.

Senator HITCHCOCK. You have no idea of what it should be?

Mr. FLANNAGAN. No.

Senator HITCHCOCK. You have just said to Senator Bristow you think this would result in a contraction of the currency.

Mr. FLANNAGAN. No; I asked him the question, "How can it?" If you retire 5 per cent of the present issue annually, and you are free to replace it, how can there be any contraction?

Senator HITCHCOCK. I am not talking about the provisions of this bill, which provides for retirement, because personally I am against the retirement of the national-bank-note currency.

Senator POMERENE. You are against the retirement of the national-bank-note currency?

Senator HITCHCOCK. Yes; and I would like to find out from some one, who is in a position to know, to what extent the currency really should be restricted. Some men say 10 per cent, some men say 15 per cent. Now, I ask you how about that, Mr. Flannagan?

Mr. FLANNAGAN. I can not tell you; I think that it ought to be adjusted by the requirements of trade in two ways—first as to its issuance and then as to its redemption. I have written a paper on that, which I will send you.

Senator HITCHCOCK. But there is a point where some currency must remain.

Mr. FLANNAGAN. Undoubtedly.

Senator HITCHCOCK. Can you give the committee any idea how much?

Mr. FLANNAGAN. I do not believe anybody can tell you that. I do not believe anybody knows.

Senator HITCHCOCK. If some currency must remain, why not allow the bond-secured currency to remain as the permanent feature of our currency, simply imposing on top of that an elastic cushion.

Mr. FLANNAGAN. A fringe. That is what you are doing here under this suggestion of mine.

Senator HITCHCOCK. No; we are proposing under this bill to retire all the bond-secured currency.

Mr. FLANNAGAN. Yes, in twenty years.

Senator HITCHCOCK. I put to you the question. If we must have at all times, say, 80 per cent of currency, why not allow this bond-secured currency to remain as the permanent feature of our currency system, and simply impose on top of it an elastic cushion?

Mr. FLANNAGAN. You mean for the purpose of——

Senator HITCHCOCK. I mean simply for the purpose of not having an undue disturbance in the banks of the country.

Mr. FLANNAGAN. You will not have an undue disturbance in the banking world if you retire annually at the rate of 5 per cent per annum.

Senator HITCHCOCK. I am simply asking your view in relation to that phase of the question. I would like to hear from you, and I would like to have some one state to this committee what percentage of elasticity is necessary. If it turns out to be only 10 per cent, then in a few years this country will go to a point where the present bond-secured currency can legitimately become the permanent currency of the country and without any shrinkage, and it will simply be necessary to provide for the necessary elastic currency in addition. If the bond-secured currency is safe, what objection is there to that?

Mr. FLANNAGAN. That might work. I can not say offhand what percentage it would be. You know in the case of the Bank of England they have a fixed amount—I believe it is $90,000,000—but the principle of issuing a bank currency ought not to be restricted as it is at the present time, for the Government produces an inelastic currency, and if you grant that it is inelastic, I think that that inelasticity should be corrected, and that the volume of business will adjust it. You do not want the currency to go below a certain amount.

Senator HITCHCOCK. My thought is this: That we have $700,000,000 of good currency outstanding now.

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. If that is redundant now at any time during the year, it will only be a matter of a few months before the Government will come up to it, and whatever additional elasticity we need we can have on top of that.

Mr. FLANNAGAN. Is there any guaranty that it will not be changed?

Senator HITCHCOCK. If we were only authorizing a new percentage to be deposited against it, it could remain the permanent foundation of our currency system. Every country has a permanent currency. The Bank of France always has its notes outstanding. Do you know what the shrinkage is in that country?

Mr. FLANNAGAN. No.

Senator HITCHCOCK. It is insignificant, is it not?

Mr. FLANNAGAN. I do not know. They do their business mostly with bank notes.

Senator HITCHCOCK. They have 500 millions of dollars of bank-note currency outstanding as a rule and it does not shrink, and that is true of the Reischbank in Germany. There is not a great percentage of shrinkage there. There seems to be always a need for a permanent currency. Why not retain the bond-secured currency we have now?

Mr. FLANNAGAN. If you can fix in your mind the proper amount that is true as an economic proposition. If the $700,000,000 can be retained as this fixed amount of our currency, then it is all right.

Senator HITCHCOCK. So you are unable to say what the shrinkage would be?

Mr. FLANNAGAN. I do not know how to figure it. I think it is wise to gradually provide for the redemption of any bond-secured currency. That is my thought, but I am not wedded to that particular thing.

The CHAIRMAN. I would like to call your attention, Mr. Flannagan, to the experience of the Bank of France. They have 5,800,000,000 of francs and they actually keep, though not issued at all in normal times, something over 1,000 millions of francs, but even under that condition it is being redeemed and emitted, and it therefore appears that they have over 1,000 millions of francs which they could issue in an emergency.

Senator HITCHCOCK. Have you in the reports of the Monetary Commission any statistics showing the extreme variations of issue of the banks of Europe?

The CHAIRMAN. No; I do not think there is any table showing these variations. They simply show the tables from time to time as they happened to be.

Senator HITCHCOCK. I have been told that it is not over 15 per cent of shrinkage in volume.

Mr. FLANNAGAN. In France?

Senator HITCHCOCK. No; in the average European bank. In fact I understand in Germany the effect of their system is that there is a constant tendency to expand and that contractions in a period of depression brings about an acute condition there—it does not work as well there—and that they really have their periods of depression to represent our panics and have their losses.

Senator SHAFROTH. I want to ask you a question. Would you have these notes which you propose to issue legal tender?

Mr. FLANNAGAN. Not at all.

Senator SHAFROTH. You would not have them legal tender at all?

Mr. FLANNAGAN. Not at all.

Senator SHAFROTH. What objection is there to making them legal tender?

Mr. FLANNAGAN. I would like to see all legal-tender notes retired. I have great objection to legal-tender notes.

Senator SHAFROTH. What is your objection to legal-tender notes?

Mr. FLANNAGAN. Because it is making somebody take some other debt in payment of another debt. It is wrong in principle.

Senator SHAFROTH. Every country in the world does it.

Mr. FLANNAGAN. I beg your pardon.

Senator SHAFROTH. The Bank of England does it.

Mr. FLANNAGAN. The Bank of England notes are legal tender so long as they redeem in gold, and no longer.

Senator SHAFROTH. The Government has placed itself on record as pledging itself to maintain the parity of the metals and of all forms of money. It has a gold reserve, has it not?

Mr. FLANNAGAN. The Bank of England?

Senator SHAFROTH. No; the United States Government.

Mr. FLANNAGAN. Oh, we were forced to provide a gold reserve as a result of the panic of 1893.

Senator SHAFROTH. It is there, is it not?

Mr. FLANNAGAN. Yes.

Senator SHAFROTH. And it answers the purpose, does it not?

Mr. FLANNAGAN. It does, simply because the United States Government is exercising a banking function and the commercial world has forced it to provide gold as a reserve; but it is not that way with the idea of legal tender.

Senator SHAFROTH. Every dollar of money that is out has the power of the Government behind it. That makes it circulate more readily.

Mr. FLANNAGAN. Well, I will tell you, a Government paper obligation is a debt; it is a debt whether it is issued by a bank or whether it is issued by the Government. When you say that by mandate of law that shall be received in payment by everybody for everybody else's debt, you are assuming a prerogative that the commercial world will never stand for, and you can not do it except to a limited extent.

Senator SHAFROTH. We have done that with the gold.

Mr. FLANNAGAN. But the would has done that as to gold.

Senator SHAFROTH. And we do it as to silver now, and there is no discount on it.

Mr. FLANNAGAN. Why; because there is a redemption in gold.

Senator SHAFROTH. Certainly.

Mr. FLANNAGAN. I will grant you that as soon as you provide for redemption that your paper promise to pay a debt will stand at par with gold; but there is no necessity to make the money legal tender in order to do that.

Senator SHAFROTH. Would not they be more likely to attempt to redeem the paper money in gold if it is not gold legal tender? Is not that a use that is given to the money itself; it strengthens currency, does it not?

Mr. FLANNAGAN. But it is wrong in principle; that is the point I make.

Senator SHAFROTH. Is not that a use that is given to the money itself that aids and assists and strengthens the currency?

Mr. FLANNAGAN. But it is wrong in principle.

Senator SHAFROTH. Every Government, I think, on earth had done it to a more or less extent.

The CHAIRMAN. The Reichsbank notes are made by law of the German Empire legal-tender notes and the notes of the bank of France are made by law legal tender; although those are both privately owned corporations.

Mr. FLANNAGAN. I think the experience of the commercial world is against legal tender, and I think that our own experience in 1893 shows that we had to provide a gold reserve and that ought to teach us that there is a limit beyond which we can not by mandate of law say that a paper promise is equivalent to coin.

Senator SHAFROTH. That depends upon the amount of gold reserve?

Mr. FLANNAGAN. Yes; and the amount of issue.

Senator SHAFROTH. I want to ask you this: You admit that by making this total legal-tender money issued by the Government and taking up these 2 per cent bonds would be a saving to the Government of $14,000,000 a year, do you not?

Mr. FLANNAGAN. Yes.

Senator SHAFROTH. Would not that be sufficient under any and all circumstances to maintain the gold reserve with 50 per cent back of it?

Mr. FLANNAGAN. $14,000,000?

Senator SHAFROTH. Yes; $14,000,000 a year. We have $700,000,000 of bank notes now, and 2 per cent on that. Would it not save $14,000,000 a year by the substitution of full legal-tender money instead of bank notes secured by those 2 per cent bonds?

Mr. FLANNAGAN. I think it would.

Senator SHAFROTH. Why is it that bankers are invariably insisting that their reserves should be made lower, say, 25 per cent, or down to 18 per cent; and that the country banks should be cut down from 15 to 12 per cent, so that they could issue more credit upon their assets; but when it comes to the Government it must be dollar for dollar? Why is that? Why should not the Government be permitted to have at least a little element of this and thereby effect a saving for the people?

Mr. FLANNAGAN. I believe that if the Government should issue its own notes (and not make them legal tender) to be used as a circulating medium to the extent of the outstanding 2 per cent bonds and keep gold reserves behind them of 50 per cent, that they would save the interest, and that the notes would pass at par by reason of the redemption in the Treasury.

Senator SHAFROTH. Do you not think, adding the legal-tender gold to your notes would add to it?

Mr. FLANNAGAN. No; I do not think so.

Senator SHAFROTH. Would it detract from it?

Mr. FLANNAGAN. I do not know that it would, but I think that it is wrong in principle. I think it is wrong to make a debt due by somebody else payable for another debt. You mean legal tender for private debts?

Senator SHAFROTH. Yes; for public and private debts.

Mr. FLANNAGAN. That is what I am opposed to. I think it is all wrong in principle.

Senator SHAFROTH. But do you not see that there would be such a demand for that currency that it would keep it at a parity with gold?

Mr. FLANNAGAN. Well, I will tell you, I had an experience during Confederate times in which we saw Confederate money. We had that money and we thought it was pretty good money; but it all went to pot.

Senator SHAFROTH. The very Government upon which it was founded went to pot.

Senator REED. The whole Nation went to pot.

Mr. FLANNAGAN. Yes; the whole Nation went to pot.

Senator REED. I am willing that any currency of this country shall go to pot when the Federal Republic goes to pot.

The CHAIRMAN. How long do you think that will be, Senator?

Mr. FLANNAGAN. I do not think that will ever happen.

Senator REED. I think it will be a long while yet; although if we believe the prophecies of some distinguished gentlemen I know of, we are on the verge of the precipice all the time.

Mr. FLANNAGAN. Shall I go on?

Senator BRISTOW. Just a moment, Mr. Flannagan. I got the impression from the statement that you made a while ago that you believed the present volume of our currency was redundant.

Mr. FLANNAGAN. No; I have not stated that. I do not think so.

Senator BRISTOW. Then I got the wrong impression.

Mr. FLANNAGAN. There are some other amendments to this bill which I think would be interesting, if you will allow me to suggest them to you.

If you will turn to page 3, at the end of section 2, I would suggest a paragraph for the purpose of removing some of the objections which have been made by many eminent people; that the provisions for the Federal reserve banks will produce such a violent shifting of credits as to be dangerous to the general interests of the country; and also that this amendment I have suggested would have the tendency of making the country banks decide at once whether or not they were coming into the system. It will give the organization committee some idea of how they shall exercise their power in organizing the districts. The suggestion I make is this: That you add to that paragraph on page 3, right at the bottom after the word "expenses," the following:

Every bank indicating within 60 days after the passage of this act its purpose to comply with the provisions thereof may deposit with the organization committee its subscription to the capital stock of the Federal reserve bank to be located in the district of the subscribing bank, and thereafter at its option shall be entitled to pay one-half of said subscription in monthly installments of 10 per cent, the deferred payments after 30 days to bear interest at the rate of 5 per cent per annum, upon executing its direct obligation to said Federal reserve bank, when organized, in full payment of one-half of such subscription, which obligation shall be secured by the deposit as collateral security of bills and notes discounted, and indorsed by such subscribing bank, to the face amount of such obligation, said bank having the right of substitution before maturity of other collateral notes or bills and pro rata withdrawal of collateral as payment is made of the bank's obligation.

The effect of that would simply be that any bank that wants to pay for a subscription for stock by getting a discount can do so by putting up collateral.

Senator HITCHCOCK. Suppose, then, it should turn out that not enough banks should come into these reserve associations to put this law into effect throughout the country?

Mr. FLANNAGAN. That would not prevent it, but will encourage them to come in.

Senator HITCHCOCK. There is a pretty grave doubt, throughout the testimony which the committee has heard, and also which I have gained from outside statements, as to whether enough national banks will come in to make the law effective.

Mr. FLANNAGAN. You adopt the first amendment I suggested and you will find them all coming in. All the country banks will come in.

Senator HITCHCOCK. Suppose that even with this amendment, which I think strengthens the inducement—suppose, even with this, only a couple of thousand banks should come in?

Mr. FLANNAGAN. They could get their money back. Everybody would get his money back; that is all.

Senator REED. That leads me, Mr. Chairman, to interject this remark: There is no reason why this bill can not be so amended that when there are enough banks, wherever situated, who signify their desire or willingness to go into this plan——

Mr. FLANNAGAN (interposing). To form one?

Senator REED. To form one regional reserve bank, it shall be formed.

Mr. FLANNAGAN. There is no reason why it should not be amended in that way, that I can see. I think the arbitrary fixing of capital at $5,000,000 for many several banks before any shall be allowed to do business is not a wise provision.

Senator REED. Then it could be followed up by a provision in case of the organization of new reserves to provide one only could organize, say 5 or 6 to start on, and that then there could be stock transfers, etc., worked out.

Senator SHAFROTH. I think this bill provides for additional reserve banks.

Senator REED. But it provides first for 12; and you remember one banker here argued, and he had it figured out, how a few very large banks staying out could prevent the organization.

The CHAIRMAN. Mr. Festus J. Wade made that suggestion.

Senator REED. The discretion could be left in the board of organizers, so that they can organize a bank whenever they have got enough capital and wherever the bank is situated.

The CHAIRMAN. In reality the Federal reserves and the Federal deposits are so much more important then the question of capital, that capital is not an important factor.

Senator REED. I do not see any necessity of requiring that they must have $5,000,000 of capital subscribed before they can organize a bank.

Mr. FLANNAGAN. Do you wish to discuss that amendment at all, or shall I just pass it over? I just threw it out as a suggestion. My own opinion is that there is not a sufficient shifting of credits to amount to anything.

The CHAIRMAN. I would like to have a copy of that.

Mr. FLANNAGAN. I will give you this copy of the bill, marked in that way.

There are several other things that I would like to suggest, some minor changes, as we go along. On page 10, line 22 and line 25, the word "stock" ought to be added after the word "capital."

The CHAIRMAN. What is your suggestion?

Mr. FLANNAGAN. The adding of the word "stock," after the word "capital" in those lines.

The CHAIRMAN. You have not the last issue there, have you?

Mr. FLANNAGAN. I have the last, sir; yes.

Senator SHAFROTH. I think they have put in the word "stock."

Mr. FLANNAGAN. It is not here, Senator.

Senator SHAFROTH. I know, but in the other print they put the words "capital stock" in.

Mr. FLANNAGAN. They did in some cases, but not in this, Senator.

Senator SHAFROTH. I know they did in some cases.

Mr. FLANNAGAN. Do you see it there, Senator Owen?

The CHAIRMAN. Yes.

Mr. FLANNAGAN. In the twenty-fifth line add the word "stock" after the word "capital." And on the eleventh page and the sixth line, add the word "stock." That makes that right.

Here is a very simple amendment, but I suppose that while we are going over it, as I read this bill very carefully last night, we may as well fix it. On the fourteenth page, the sixth line, if you will read it, you will see the word "associations." As the reference

has been to one association, it ought to be in the singular. If you read the context before, you will see that that is true.

Now, if you will please turn to page 15, line 3. I do not know whether you gentlemen have considered the question or not of allowing State banks with branches to come in. Of course it is very desirable for all State banks to come in, to make it to their interest to do so, but unless you allow State banks which already have established businesses and have established branches to retain those branches it is folly to expect them to come into it. They can not do it; they would not do it. None of them would entertain it at all. So my suggestion is that you allow them to retain the branches already established, if they come in, and if you determine that you are willing to do that, then that you would amend it by saying, after the word "Comptroller" in the third line, "may retain any branches existing at the time of such approval."

Senator HITCHCOCK. That gives them a great advantage over national banks.

Mr. FLANNAGAN. I am going to suggest that you give national banks the right of branches in their municipalities, so as to meet that. In one town, I mean—not branches outside of it. "Approved by the said comptroller" would make it better and clearer, because you mean the Comptroller of the Currency, as he has been named there before; and it would be well if you would amend it by inserting after the word "the" the word "said."

Then turn to page 17, line 18. This is quite immaterial, but it seems to me in order to have it conform it should be amended. Section 11 begins: "That there shall be created." If you will turn to the matter of the advisory council you will see that it reads "There is hereby created." It seems to me you ought to have them read alike.

Senator REED. The first ought to be "There is hereby created."

Mr. FLANNAGAN. It should conform to that phraseology.

Senator HITCHCOCK. Is there anything in this bill as it now stands which would prohibit the comptroller from accepting as a member a State bank which has branches?

Mr. FLANNAGAN. Yes; in the reference to the provisions of the national currency act there is a sentence here which would seem to prohibit it, but if you will make the other change so as to allow the national banks to have branches, the question will not arise at all.

Senator BRISTOW. If you allow national banks the right of branches in their municipalities, one bank could monopolize the entire banking business of New York?

Mr. FLANNAGAN. It can not do it very well. I do not see any objection to it—but, of course, you will do as you like. [Laughter.]

Senator HITCHCOCK. Can you point out where in this bill a State bank would be prohibited from becoming a member if it had branches?

Mr. FLANNAGAN. One minute, and I will do it. You know we do not have any national branch banks, do you not?

Senator HITCHCOCK. Yes; but I do not remember any provision in the bill which prevents a State bank from having branches.

Mr. FLANNAGAN. Look on page 16, line 9.

Senator HITCHCOCK. What is the paragraph? What section?

Mr. FLANNAGAN. Section 10; I can find it in this one, I suppose. Here it is; line 17 on page 16. There you will see "provided for in

this and other laws relating to national banks." They have to comply with reserve requirements and submit to the inspection and regulation provided for in this and "other laws relating to national banks."

Senator HITCHCOCK. That does not prohibit it; it simply says that they must comply and conform with the reserve requirements and submit to inspection.

Mr. FLANNAGAN. And other laws relating to national banks.

Senator SHAFROTH. And that prohibits branch banks?

Mr. FLANNAGAN. Other laws relating to national banks.

Senator POMERENE. When State banks have branch banks and they take out a charter under the national banking law, they can retain branch banks.

Senator SHAFROTH. That is the substance of the amendment?

Senator POMERENE. That is the substance of the law as it exists now.

Mr. FLANNAGAN. It is?

Senator POMERENE (reading):

It shall be lawful for any bank or banking association, organized under State laws, and having branches, the capital being joint and assigned to and used by the mother bank and branches in definite proportions, to become a national banking association in conformity with existing laws, and to retain and keep in operation its branches or such one or more of them as it may elect to retain, etc.

Mr. FLANNAGAN. What section are you reading?

Senator POMERENE. I am reading the national banking act. That is where they come in under the national banking law.

The CHAIRMAN. I do not think that is in force now. I do not think they can come in now with branches.

Senator POMERENE. It is section 5155. [Reading:]

It shall be lawful for any bank or banking association organized under State laws, and having branches, etc.

Mr. FLANNAGAN. As a matter of fact, you can not find any national bank that has a branch, and there have been many State banks that have been converted into national banks. The Bank of New York, for instance, is one; and there are many others.

Senator POMERENE. Not that had other branches. This says that a State bank with branches may reincorporate under the national banking law and may retain its branches.

Mr. FLANNAGAN. Do you think that is the law now?

Senator POMERENE. That seems to be. It is the edition of 1908.

The CHAIRMAN. I think that was the law then, that banks at that time having those branches might come in, but they did not exercise that option, and since that time all these national banks are without branches, for the very reason we have in mind, that this is intended to be an individual banking system with competition preserved rather than forming a single bank to gather together powers throughout the country, having a system of branches.

Senator HITCHCOCK. I do not think section 10 bears on State banks.

Mr. FLANNAGAN. You do not think that it does? Of course if there is no law prohibiting banks with branches it does not. I just took it for granted that there was such a law, from the fact that there are no existing national banks with branches.

Senator HITCHCOCK. I understand that State banks in coming in are only required to comply with the national banking act as far as reserves and capital are concerned and submit to inspection.

Mr. FLANNAGAN. I think that those words there, "other laws relating to national banks," would include all laws.

Senator HITCHCOCK. Where do you see that?

Mr. FLANNAGAN. On the seventeenth line.

The CHAIRMAN. Page 16, line 17, requiring them to submit to inspection and regulation provided for in this and other laws relating to national banks. The regulation permits the national bank to have its branches.

Senator HITCHCOCK. It only relates to observing the requirements of inspection.

Mr. FLANNAGAN. Perhaps that is the right construction.

Senator SHAFROTH. Will you not make a copy of this act with the modifications——

Mr. FLANNAGAN. I have it right here, Senator.

Senator SHAFROTH. And give it to the chairman, so that we can have it when we take this bill up section by section?

Mr. FLANNAGAN. I have it right here; I have done that very thing.

(At this point an informal conference was had, which the stenographer was directed not to report.)

Senator REED. I move that we take a recess until half past 2.

The CHAIRMAN. We will meet at half past 2, gentlemen.

(Thereupon, at 1.05 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. Mr. Flannagan, proceed.

Mr. FLANNAGAN. We discontinued while considering amendments at page 21 of the new bill.

There has been a good deal of objection on the part of bankers to the mandatory character of the paragraph marked "(b)," page 21, section 12, requiring Federal reserve banks to rediscount prime paper of other Federal reserve banks. Of course, I do not know what you gentlemen will think of that proposition, but my thought is that it is entirely immaterial whether you insist upon the word "require" or not, for the reason that——

Senator REED. What page is that on?

Mr. FLANNAGAN. Page 21. For the reason that the Federal reserve board can actually control that matter by the question of deposits. All they will have to do would be to suggest to one bank that unless they made the desired discount that they would transfer deposits to cover, which would accomplish the same purpose, and as the banks themselves seem to think that the mandatory character of this paragraph is not Anglo-Saxon, I believe it would be wise just to erase "or require, in time of emergency," and all the balance of the paragraph after the word "banks," in the tenth line, so as to leave it as it was in the original bill, except the word "require"; the words "in time of emergency" were put in as an amendment from the original draft.

Page 22, line 11, reads:

Designate the banks therein situated as country banks at its discretion.

You remember, those of you who saw the circular of the National City Bank of New York, that they made a good deal of fun of that provision, as if the authority was given to the Federal reserve board to designate different banks in the same city as country banks. I think the expression they used was that it was a "joke." My thought is, that if you will put the word "all" in the eleventh line——

The CHAIRMAN. What page?

Mr. FLANNAGAN. Page 22—the word "all"—"designate all the banks therein situated as country banks at its discretion" it would mean that the Federal reserve board could not designate banks as country banks unless they included all of the banks in any particular reserve city.

Senator REED. Do you think that was any substantial objection? Was it not rather a play upon words?

Mr. FLANNAGAN. They did make that objection.

Senator REED. Yes.

Mr. FLANNAGAN. My thought is that I really believe this refers to cities as it stands, but to put the word "all" in it will remove any criticisms of that sort.

On page 23, line 20, after the word "resentations," being a part of the word "representations," I think it would be well to insert the words "to said board," as the contention, I suppose, is that the advisory council will not make their "representations" all over the country, but they ought to make them to the board.

On page 24, under the general title "Rediscounts," in line 20, as the section now reads, the Federal reserve bank would be prohibited from discounting any paper which was secured by Government bonds or State or municipal bonds or any other investment securities. I do not know whether that could have been the purpose of the framers, for the reason that on page 27, in the thirteenth line, the Federal reserve banks are authorized to invest in United States bonds, and any bonds issued by any State, county, district, or municipality. It would seem, therefore, that they should be authorized to loan on the same securities in which they are allowed to invest, and I therefore suggest that in the twentieth line, after the word "merchandise," you would add "or by securities in which the Federal reserve bank is authorized to invest."

Senator BRISTOW. Why not securities that the bank itself is allowed to invest in?

Mr. FLANNAGAN. That is what it suggested.

Senator BRISTOW. The member banks?

Mr. FLANNAGAN. The reason of it is that you specify what the Federal reserve bank may invest in, and I thought it would be subject to less criticism if you allowed them to loan on what they are already authorized to invest in.

Senator BRISTOW. But a national bank is authorized to invest in certain kinds of securities and other kinds of securities it must not invest in?

Mr. FLANNAGAN. Yes.

Senator O'GORMAN. In other words, the statute fixes the kind of securities a national bank shall invest in.

Senator BRISTOW. Why not let it use any kind of securities that the statute permits it to take for securing loans?

Mr. FLANNAGAN. You see, there was considerable discussion in the House on that subject, in the effort of some of the Members to get warehouse receipts used, and it was finally compromised to allow warehouse receipts for merchandise to be used as collateral security to obligations. If you want to make it so broad as to allow the reserve bank to discount any paper that the national bank is authorized to discount, there would hardly be any necessity at all for this section. The purpose of this section seems to be to limit the discounts of the reserve bank to commercial transactions as much as possible.

Senator BRISTOW. That is one other strong objection some of us have to the bill, and what reason is there that a bank should not be permitted to use its assets?

Senator O'GORMAN. Just as a national bank would?

Senator BRISTOW. Yes. Why should it not discount its loans—the loans which the Government permits it to make?

Mr. FLANNAGAN. I do not know of any reason. I am not arguing that proposition; I am simply stating that if you want to confine it to this class of securities, that in order to be consistent you ought——

Senator REED. To make the two sections harmonize?

Mr. FLANNAGAN. Yes. Now, the purpose seems to be in that connection to prohibit speculation, so that banks that are in the habit of loaning to people who buy and sell stocks on margin could not utilize the reserve banks through the member banks. I believe it would be made more emphatic and carry out that idea if you would insert in the twenty-second line—after the word "the" and before the word "purpose," the word "speculative"; and after the word "or," in the twenty-third line, insert the word "marginal"; and in the same twenty-third line substitute for the words "investment securities" the words "credit instruments." As it reads now, it says—

shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities.

The CHAIRMAN. As amended, how would it read?

Mr. FLANNAGAN. As amended, it would read:

Shall not include notes or bills issued or drawn for the speculative purpose of carrying or marginal trading in stocks, bonds, or other credit instruments.

I objected to the words "investment securities" in the original reading, because it might be implied that the banks could loan on securities which are not investment securities; for instance, you might loan on mining stocks, and my opinion is that the word "investment" should come out anyhow. So that I think if you substitute for the two words "investment securities" the two words "credit instruments" that it would include everything of that nature.

There has been a good deal of discussion as to the time that this paper shall run. On the last line, the twenty-sixth, it was originally written "60 days." As amended by the House, that was changed to "90 days."

I believe that it would be wiser to retain the limit of those loans at 60 days, because if the purpose is to maintain paper of short term which is readily convertible, that 60 days would be long enough when

the reserve of the bank is down to 33⅓ per cent, because in the next paragraph, on page 25, you are allowed to take paper running 120 days, if the reserve exceeds 33⅓ per cent, at an amount to be fixed by the Federal reserve board. So that my idea is to change the word "ninety" to "sixty" in the twenty-sixth line of the twenty-fourth page; and also change the word "ninety" in the third line of the twenty-fifth page to "sixty."

On the same twenty-fifth page, coming down to the twelfth line, my thought is that you can make the reading of that very much plainer and simpler, if you will make the following change: Insert after the word "discount" the word "the," and erase the letter "s" from the word "acceptances"; erase in the thirteenth line the word "such" and erase the letter "s" from the word "banks"; and substitute therefor "another member bank." Change in the same thirteenth line the word "are" into "is".

Then in the fifteenth line strike out the balance of that sentence, and to the end of the sixteenth line.

Then the paragraph will read:

Upon the indorsement of any member bank, any Federal reserve bank may discount the acceptance of another member bank which is based on the exportation or importation of goods, and which matures in not more than six months.

The letter "s" would have to be inserted in the fourteenth line after the word "mature," because the words erased—

and bear the signature of at least one member bank in addition to that of the acceptor,

are superfluous, as they are included in the first part of the paragraph, stating that any member bank may discount the acceptance of another member bank upon the indorsement of a member bank, so it appears useless to put that there.

In the nineteenth line, the word "such" occurs, which must have been——

Senator O'GORMAN. You propose the elimination of the seventeenth and eighteenth lines?

Mr. FLANNAGAN. No, sir.

In the nineteenth line you will find the word "such." It is not clear to what it refers. I suppose it must have been in there before the insertion of that paragraph just before it. I think it would be plainer if you would erase that word and say, "The aggregate of notes and bills bearing the signature," and so on.

On the twenty-sixth page, the seventh line, I believe, in the place of the words "face value," if you will insert the word "amount" it will be an improvement.

And in the eighth line, after the word "capital," insert the word "stock," and it will be made to read plainer. It will then read:

One-half of the amount of its paid up and unimpaired capital stock.

Senator HITCHCOCK. And that would allow such a bank to rediscount all of that paper at the reserve bank?

Mr. FLANNAGAN. What are you referring to, Senator?

Senator HITCHCOCK. You allow a national bank to give acceptances to the extent of one-half of its capital stock?

Mr. FLANNAGAN. That is in another clause.

Senator HITCHCOCK. And you allow the reserve banks to discount the paper to the extent of one-half the capital stock of the bank?

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. Those discounts are in addition to the discounts of commercial paper of individuals?

Mr. FLANNAGAN. No. It seems to me that that refers to the whole proposition, that a member bank may not have discounted at any time more than one-half of its capital stock.

Senator HITCHCOCK. No.

Mr. FLANNAGAN. Do you think it does not?

Senator HITCHCOCK. No; there is no limit to that. The only limit seems to be on acceptances.

Mr. FLANNAGAN. Well, then, it ought to read in the nineteenth line "the aggregates of such acceptances," should it not?—No, no; that clause refers to the provision of the national-bank act, which limits the discount of the paper of any one firm or corporation to 10 per cent of its capital, so that if this says that you can not discount more paper it carries out the same limitation of the national-bank act, does it not?

Senator HITCHCOCK. I think not. It says here on page 25 that any member bank——

Mr. FLANNAGAN. Page 25; what line are you reading?

Senator HITCHCOCK. Beginning on line 11.

Any Federal reserve bank may discount acceptances of such banks.

But it can only discount them to the extent of one-half of the capital stock of the member bank.

Mr. FLANNAGAN. Yes; I think that is right.

Senator HITCHCOCK. And on the other page—the next page——

Mr. FLANNAGAN. What bill are you reading from?

Senator HITCHCOCK. The same one you are.

Mr. FLANNAGAN. On the next page?

Senator HITCHCOCK. On the next page. A member bank is permitted to give acceptances to the extent of one-half of its capital stock.

Mr. FLANNAGAN. Yes; I think that is right.

Senator HITCHCOCK. So that it is really allowed to discount at the reserve bank all of the acceptances which it gives.

Mr. FLANNAGAN. Not in excess of one-half of its capital stock?

Senator HITCHCOCK. Not "excess."

Mr. FLANNAGAN. Yes; if somebody else would rediscount an acceptance——

Senator HITCHCOCK. That is to say, it would not be that bank—another bank?

Mr. FLANNAGAN. That is right.

Senator HITCHCOCK. But the point I was making was that those discounts would be in addition to any commercial paper.

Mr. FLANNAGAN. Oh, I think so.

Senator HITCHCOCK. Discounted by that bank, of course?

Mr. FLANNAGAN. I think that is right.

If you look at the twenty-second line on the twenty-sixth page, it reads:

Liabilities to the stockholders of the association for dividends and reserve profits.

Very often in the organization of banks they contribute funds for a surplus, so that it would not be profits. I think it would be wise to change that, inserting after the word "for" and before the word "dividends" the word "unpaid," and after the word "dividends" insert the words "surplus fund," and after the word "and" insert "undivided profits" and erase the word "reserve," so that line 23 would read:

For unpaid dividends, surplus fund, and undivided profits.

On page 27, line 13, after the letter "b" in the parentheses, you have "to invest." It would naturally be supposed that the idea of investment would imply the right to sell again. It would seem, from the context, i. e., the balance of that section, that it was not thus intended, and I do not think that that could have been the real purpose of the framers; that is to say, that it should be confined to an investment in United States bonds, and bonds issued by any State, county, district, and so on, but they must have intended to mean to buy and to sell and to invest. The reason I say that is that in the fourth line of section 15, same page, they use the words "purchase and sell"; in the ninth line they use the expression "to deal in"; but when it comes to the thirteenth line they say "to invest."

Senator SHAFROTH. Why could not that just be changed by putting in the word "deal"?

Mr. FLANNAGAN. "To buy, to sell, and to invest." After the letter "b" just write "to buy and sell and."

Senator O'GORMAN. "To buy and sell" would be the best.

Mr. FLANNAGAN. The only reason I kept the word "invest" there was because of the change previously made, in which the bank was authorized to discount paper secured by securities in which it was authorized "to invest," referring to that same word "invest" here.

Senator SHAFROTH. It would not hurt to leave in that word "invest."

Senator O'GORMAN. It is wholly unnecessary and is surplusage, because it adds nothing to the authorization "to buy and sell." It might be construed to buy and immediately sell, however.

Senator SHAFROTH. That is not likely.

Senator O'GORMAN. I think it would be a strange construction, myself, but I think the word "invest" is used in other parts of the bill.

The CHAIRMAN. Evidently that word was used to make it sound better.

Mr. FLANNAGAN. On the twenty-ninth page, line 11, the last word of that line is "deposit," being a part of the word "depositing." I think it should be changed to "member."

The CHAIRMAN. Should be changed to what?

Mr. FLANNAGAN. To the word "member."

shall be confined to the Government and the member and Federal reserve banks.

Now, if you continue in that same section, on the 13th line, it says:

purchase or sale of Government or State securities or of gold coin or bullion.

It would appear to me that that would limit the Federal reserve bank to State securities only. It ought to be made to include municipal and other securities, because it is otherwise authorized, so that it appears if you make any exception there, unless you erase the

whole of it (which I do not think it was necessary at all to put in), then you ought to change the word "State" into "other," and after the word "securities" insert "authorized by this act," so that the exception would be—

with the exception of the purchase or sale of Government bonds or other securities authorized by this act or of gold coin or bullion.

The CHAIRMAN. Other authorized securities?

Mr. FLANNAGAN. What would you say?

The CHAIRMAN. "Or other authorized securities," would serve the purpose.

Mr. FLANNAGAN. That would mean the same thing—"authorized securities."

And on the thirtieth page, I suggest, in the eleventh line, between the word "of" and the word "issue" the insertion of the word "all," and in the next line——

Senator O'GORMAN. Insert what word?

Senator SHAFROTH. "A-l-l."

Mr. FLANNAGAN. And in the next line, so that there can be no question as to what kind of notes are being withdrawn, that between the word "of" and "notes" you will insert "Federal reserve." You see, up above there it speaks of collateral security—"shall be notes and bills"—and while probably it would be construed to mean Federal reserve notes, I think it would be better to have it plain.

In the fourteenth line of the same page, instead of the words "shall be authorized," I should think it would be better to say "shall have authority."

On the thirty-third page, in the third line, I think it would be simply an improvement of English to change the word "reduction" to "decrease," and in the fourth line, after the word "apart," say "by said bank," and in the fifth line——

Senator SHAFROTH. Strike out "apart"?

Mr. FLANNAGAN. No; after the word "apart" and before the word "for," insert "by said bank"; and in the fifth line erase the word "corresponding" and substitute the word "similar," so that it will then read, beginning on the third line—

corresponding increase in the required reserve fund of lawful money set apart by said bank for the redemption of said notes and by the release of a similar amount of the collateral security deposited with the local Federal reserve agent.

I wish you gentlemen would read that paragraph commencing on the thirty-second page, twenty-first line, and see what it is, and then I will suggest a point that I think it does not cover.

Senator O'GORMAN. What is the point?

Mr. FLANNAGAN. The purpose of that is that a bank may reduce its liability for outstanding notes by the deposit of its own notes, other reserve bank notes, or gold and silver, but the liability, unless you cancel the particular reserve notes of the Federal reserve bank that issued them, will not be extinguished by this deposit unless the fund is used for the purpose of extinguishing them.

The CHAIRMAN. That is the objection, to earmarking these notes.

Mr. FLANNAGAN. They ought to be earmarked, or you will not get elasticity; that is my opinion. My thought is that it is incumbent on the reserve agent or the Treasurer to receive gold and silver for the reduction of the liability of the reserve bank, and to use that fund

for the cancellation of a similar amount of reserve notes, when they come in, being at that time held by the public. You can not cancel liabilities by depositing the money with a third person, unless that third person uses that deposit for the purpose of canceling the liability. So, I therefore think if, on the sixth line, after the word "agent," you will add "such fund thus deposited"——

The CHAIRMAN. What page and line?

Mr. FLANNAGAN. Page 33, line 6, after the word "agent," the last word in the line, add:

Such fund thus deposited shall be used exclusively for the redemption of an equal amount of the Federal reserve notes originally issued through the bank, thus reducing its liability.

That would make it incumbent, of course, upon the reserve agent or the Treasurer to receive gold or lawful money for the purpose of reducing the liability of the reserve bank which desired to reduce its liability to see that it was applied for that purpose.

Senator HITCHCOCK. Do you think that the reserve on deposit in the Treasury is adequate to make these redemptions?

Mr. FLANNAGAN. That is 5 per cent, is it not?

Senator HITCHCOCK. Yes.

Mr. FLANNAGAN. I suppose so. I should think that 5 per cent would be adequate.

Senator HITCHCOCK. The present law provides 5 per cent?

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. For national-bank notes, and it has proved utterly inadequate.

Mr. FLANNAGAN. Yes; I believe that is true.

Senator SHAFROTH. The Treasury has got to draw money out of its general funds, all right, in order to redeem national-bank notes?

Mr. FLANNAGAN. I believe it has.

Senator HITCHCOCK. This being an elastic currency, will not the redemptions be even greater?

Mr. FLANNAGAN. They may be. You asked me this morning if I thought the redemptions would be the same, did you not, as the present national-bank currency? I am not able to tell, and I do not think anybody is. It seems to me it is a matter of experiment.

Senator HITCHCOCK. Under the present law the 5 per cent fund in the Treasury has proved utterly inadequate to redeem the national-bank notes as presented?

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. Is it not an inevitable conclusion that a reserve of the same kind will also prove inadequate for the new notes?

Mr. FLANNAGAN. I think that is a very reasonable conclusion, Senator. That might be remedied by keeping a larger amount in the reserve banks.

Senator SHAFROTH. Could it not also be accomplished by making these notes so that they could be used by national banks as reserve?

Mr. FLANNAGAN. Never in the world.

Senator SHAFROTH. If they have this power to send them down to Washington, would it not answer as reserve?

Mr. FLANNAGAN. They ought not to, because they are a Government bank and ought not to be——

Senator SHAFROTH. The question is whether if they did have this power it would not relieve the drain on the Federal Treasury.

Mr. FLANNAGAN. It is not a very material drain, because you can make the banks themselves pay it more rapidly out of their own assets if you require it. You can not assume that it is positively so, that with 12 Federal reserve banks scattered throughout the country that people are going to take the trouble to send their notes all the way to Washington to get them redeemed. It is reasonable to suppose that they will send them to the nearest Federal reserve bank.

Senator SHAFROTH. In the aggregate that would amount to the same thing.

Mr. FLANNAGAN. No; the bank would then redeem and not the Treasury.

Senator SHAFROTH. But they have got to get the gold from the Treasury.

Senator HITCHCOCK. The redemptions under the present law are not caused by people sending these notes directly to Washington for redemption?

Mr. FLANNAGAN. Of course not.

Senator HITCHCOCK. As outlined this morning, because banks throughout the country when they get bank notes are unable to use them as reserves, therefore when they send remittances to New York, Chicago, or St. Louis they send national-bank notes. Those notes give them then the full reserve credit in those three cities. When those three cities receive them, they can not count them as reserves in their vaults, and therefore they quickly send them to Washington and get legal-tender money.

Mr. FLANNAGAN. Quite right, and to that extent that constitutes elasticity, that very redemption—sending them back gain.

The CHAIRMAN. Mr. Flannagan, I ask you this question: Does the redemption of those national-bank notes really make them elastic?

Mr. FLANNAGAN. Make them elastic?

The CHAIRMAN. Yes.

Mr. FLANNAGAN. The redemption of the present national-bank notes?

The CHAIRMAN. Yes.

Mr. FLANNAGAN. No; I do not think that they do. I do not think that does make them elastic, as they should be.

The CHAIRMAN. Then, what is the purpose——

Mr. FLANNAGAN. Of having them redeemed?

The CHAIRMAN. Yes.

Mr. FLANNAGAN. Why, because it is a debt, and they ought to be paid at the instance of whoever holds them.

The CHAIRMAN. Then it is not a true money?

Mr. FLANNAGAN. No. It is not coin; and of course paper money is a debt, whether issued by the Government or issued by a bank. You can not make it anything but a debt.

The CHAIRMAN. Granted that it is a debt——

Mr. FLANNAGAN. Yes.

The CHAIRMAN. A gold certificate is a debt?

Mr. FLANNAGAN. It is a warehouse receipt.

The CHAIRMAN. Call it a warehouse receipt; nevertheless, it is a debt—a promise to pay the gold which is warehoused, is it not?

Mr. FLANNAGAN. Yes; the element of trusteeship enters.

The CHAIRMAN. That is a mere matter of synonym.

Mr. FLANNAGAN. There is quite a difference between the promise of a bank or the promise of a Government to pay from assets and when you have a particular promise to pay from a particular fund. It is the same thing as a warehouse receipt. The ownership of the gold is in the holder of the gold certificate.

The CHAIRMAN. The effect of treating these bank notes as requiring this redemption, when you do not require a redemption of the gold certificates or other moneys, is to degrade these national-bank notes and compel redemption because they are degraded. Is not that the fact?

Mr. FLANNAGAN. I do not think so at all. How could you require the redemption of a gold certificate any more than to state that it will be honored on presentation? You do the same thing with national-bank notes. It is the promise of the bank to pay, but in the latter case payment may be made with the bank's property.

The CHAIRMAN. But you impose upon this national-bank note, which is treated as currency of the country and which is secured by Government bond, the provision that it shall not be used as a reserve, although some of the State banks do use them as reserves, I think, and to quite a considerable degree. They have $107,000,000 of them as reserves. But the fact that the national-bank notes are not permitted to be used by the national banks as reserves——

Mr. FLANNAGAN. And ought not to be; that is the proposition I contend for. I beg your pardon——

The CHAIRMAN. I have not concluded my question.

Mr. FLANNAGAN. I beg your pardon.

The CHAIRMAN. It is that circumstance which compels these national-bank notes being of a less current value than the other legal-tender money of the country that causes them to come back into the Treasury and causes the Treasury to keep on hand $35,000,000 of gold or lawful money for their redemption, and in addition to that the Government is also required, because of the volume of these notes coming in, to keep a still larger sum, in that way really contracting the currency to the extent of about $60,000,000 of current funds——

Mr. FLANNAGAN. Did you ask me a question?

The CHAIRMAN. I was asking you if that was not the case—if that is not the cause of this redemption?

Mr. FLANNAGAN. I think the cause of the redemption is that they can not be counted as reserves. I think that is the cause.

The CHAIRMAN. That is the point.

Mr. FLANNAGAN. And I think it ought to be so. I do not think that any debt ought to be counted as a reserve, but that the true reserve to pay debts with is gold, and that any other payment is a swapping of one debt for another debt.

Senator SHAFROTH. Not even the United States notes now outstanding?

Mr. FLANNAGAN. Not even greenbacks. I contend that the greenbacks ought to be redeemed.

The CHAIRMAN. Ought not to be used as money?

Mr. FLANNAGAN. No.

Senator SHAFROTH. You would have nothing but gold as money, or gold certificates?

Mr. FLANNAGAN. I would have anything that could be converted into gold.

Senator SHAFROTH. You would not have that legal tender?

Mr. FLANNAGAN. No.

Senator SHAFROTH. It would not be money in the strict sense?

Mr. FLANNAGAN. It would not be money in any strict sense; legal tender does not make it money.

Senator SHAFROTH. We think it does.

Mr. FLANNAGAN. You get into the greenback idea.

Senator SHAFROTH. We get into the proposition of having the currency as does every nation on the face of the globe that bears the stamp of the Government—every single bank note of Europe is full legal tender for payment of debts.

Mr. FLANNAGAN. I can not dispute that statement, but unless you have a very good authority for it I should doubt it.

Senator SHAFROTH. I have seen it stated so.

The CHAIRMAN. There is no doubt about the notes of the Reichsbank being legal tender, there is no doubt about the notes of the Bank of France being legal tender, nor of the Bank of England.

Senator SHAFROTH. The Bank of Canada notes are legal tender?

Mr. FLANNAGAN. Are they?

Senator SHAFROTH. Not the Bank of Canada but the Dominion notes; yes, sir.

Senator HITCHCOCK. Mr. Flannagan, the operations of this bill, particularly under the amendment which you suggested this morning, are likely to result in the possibility of a considerable inflation of the currency?

Mr. FLANNAGAN. The possibility of the inflation of the currency? I think I stated that for the present the total amount of additional currency that could be issued on the hypothesis that every bank issued its maximum amount, would be some three hundred and odd million of dollars. The exact amount you will find by referring to the figures I gave.

Senator HITCHCOCK. I will change that question.

Mr. FLANNAGAN. Let me finish, please, sir. The exact amount will be found by deducting the present outstanding national-bank notes from the capital stock of the national banks.

Senator HITCHCOCK. I really intended to say that the result of the operations of this bill will be the probability of a considerable inflation of credits.

Mr. FLANNAGAN. Which is the same thing.

Senator HITCHCOCK. No; it is quite different. And I want to ask you if I am correct in this conclusion: We considered the case this morning of a bank with a million dollars capital. Let us go further and suppose that that bank has $7,000,000 of deposits and approximately $7,000,000 of loans. Under the present law it might issue $1,000,000 of currency based on bonds, and that is all?

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. It can not rediscount its notes without resorting to illegitimate banking?

Mr. FLANNAGAN. It can not rediscount what?

Senator HITCHCOCK. Under the present law?

Mr. FLANNAGAN. It can go to a correspondent bank and get a rediscount without resorting to illegitimate banking.

Senator HITCHCOCK. It is not considered good banking, and they do not do it to a considerable extent. The Treasury statement shows merely a nominal amount.

Mr. FLANNAGAN. Let me see how much that is, please. [Referring to papers.] I think it is many millions.

Senator HITCHCOCK. It is very small compared to the aggregate.

Mr. FLANNAGAN. Of course, I grant you that the matter of rediscounts ought not to be regular banking. I think that a bank that continually asks rediscounts under our present system shows an indication that it has not got sufficient capital for its business.

Senator HITCHCOCK. It is a very small amount. I will not go——

Mr. FLANNAGAN. I can tell you the exact amount.

Senator HITCHCOCK. That is immaterial as to the exact amount. Under the new law, and under your amendment, a bank with $1,000,000 capital, and, say, $7,000,000 of loans and $7,000,000 of deposits, could issue $1,000,000 of currency, could issue $500,000 of acceptances, which are nothing but the loan of its credit, and could procure easily $1,000,000 of rediscounts at the reserve bank. Would that not, in the case of that bank, mean the addition of $1,500,000 to the credit which it now extends?

Mr. FLANNAGAN. I think so.

Senator HITCHCOCK. And applying that to all the banks in the country, does that not mean a great inflation of credit?

Mr. FLANNAGAN. Under the figures that you gave me, if I followed you correctly, I believe that a bank could do it, but you can not presume that every bank is simply going to do it unless they have got some securities behind it on the other side. Banks do not go on and issue these obligations for the mere fun of the thing; they issue them as a matter of profit, having due reference to safety.

Senator HITCHCOCK. I am seeking to get from you now an answer to the question whether or not under the natural operation of this bill it will not make it possible for banks to increase the volume of credit now existing?

Mr. FLANNAGAN. I think that is true.

Senator HITCHCOCK. I think so, too. I think it will add a large per cent to the possible credit issue of every bank.

Mr. FLANNAGAN. Is that undesirable? Not a credit without a debt, mind you—as I tell you, they are relative terms. Whether credit or debt which is amply secured, does not that facilitate and encourage the business of the country?

Senator HITCHCOCK. Have you any belief as to the proper relation between gold and credit or not? This, without increasing the supply of gold, would mean a great increase in the credit based on it?

Mr. FLANNAGAN. Your question is——

Senator HITCHCOCK. Is there any proper relation, is there any per cent that the world has accepted as proper?

Mr. FLANNAGAN. I do not know of any per cent. In the various countries the experience is somewhat different. I should say that about 10 per cent for ordinary cases would be sufficient reserve for a bank to hold against its liabilities. I think experience has demonstrated that.

Senator HITCHCOCK. Do you personally favor this provision which allows banks to give acceptances to the extent of half of their capital stock?

Mr. FLANNAGAN. I think under the restrictions that it is for the importation or the exportation of merchandise that it is all right. It does not allow acceptances to be given in the ordinary sense of the word.

Senator HITCHCOCK. An acceptance is simply a loan of credit?

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. Loan of a bank's note?

Mr. FLANNAGAN. That is acceptance.

Senator HITCHCOCK. Do you think that it is right for a bank which is in the business for receiving deposits and making loans to practically indorse the paper of other people?

Mr. FLANNAGAN. If they have got satisfactory security, it is all right; there is no more objection to it than receiving a deposit. It is a form of business that is very largely adopted abroad. They are both exchange of debts.

Senator HITCHCOCK. Yes; but is it not a fact that the acceptances given abroad are largely by financial houses and not by banks of deposit?

Mr. FLANNAGAN. Nearly all banks abroad do issue letters of credit. The largest bank in England is the London City and Midland of London, with which I had at one time an account, which issues letters of credit and gives acceptances, and I think it is the common practice of banks in England to give acceptances, and it is used for facilitating the transfer of property from one place to another; and where the credit of the bank is known and the credit of the individual who wants to perform the operation is not known, that is the purpose of issuing these commercial credits.

Senator HITCHCOCK. I have the impression, and I got it from an English banker, that acceptances in England were given largely and chiefly by financial houses, and that they were not given by banks which were receiving deposits from the people.

Mr. FLANNAGAN. I think they are given by merchant bankers; I think they really call them that. I think to the largest extent—take Brown, Shipley & Co.; they are not classed in England as bankers, they are classed as merchants. We class them here as bankers. But, in addition to those houses, international houses which have correspondents or branches in various parts of the world, the incorporated banks also do issue letters of credit and do give acceptances. The giving of an acceptance is an incident to the issuance of a commercial credit and must be a part of it.

Senator HITCHCOCK. A few moments ago you said that the Federal reserve board would be able by its power to control the deposits of the United States to really compel a Federal reserve bank to loan its funds to another Federal reserve bank?

Mr. FLANNAGAN. Yes.

Senator O'GORMAN. I think the statute requires or gives express direction.

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. Do you think that is a good power to have vested in any central reserve board?

Mr. FLANNAGAN. I do not see how you are going to divest it of the power. You have got to give the power to somebody who is going to control these deposits.

Senator HITCHCOCK. I am not speaking of deposits only, but the power of the central reserve board to dictate the policy of a central reserve bank.

Mr. FLANNAGAN. But you can not presume that these men are going to dictate it for undesirable purposes. The men of the Federal reserve board are supposed to have the interests of the country at heart.

Senator HITCHCOCK. Now, one of the witnesses who preceded you, Prof. Sprague, argued as one of the benefits of this bill that the 12 Federal reserve banks would be able to control the policy of the individual banks of the country by threatening to withhold from them the privilege of rediscount. He said if a bank, for instance, was violating the ethics of banking in its remittances, or otherwise violating the standards established by the Federal reserve bank, that Federal reserve bank would refuse to discount paper for that offending bank, and thus compel it to adopt a different policy.

Mr. FLANNAGAN. I think that theory must have proceeded from a theorist.

Senator HITCHCOCK. You think that the Federal reserve board, under the terms of this bill, is compelled to discount paper for every bank?

Mr. FLANNAGAN. Do I think——

Senator HITCHCOCK. The Federal reserve bank is compelled under this bill to discount paper for any member bank?

Mr. FLANNAGAN. As a matter of practice, yes; but I think there would be some limitation to it.

Senator HITCHCOCK. Do you think it is a discretionary power that they have, or have they no power to refuse discount paper?

Mr. FLANNAGAN. I have not examined critically as to that, but my judgment would be that the Federal reserve bank should have the authority to decline or reject the discounted paper.

Senator HITCHCOCK. You are rather a friend of the idea of independent banking?

Mr. FLANNAGAN. I certainly am.

Senator HITCHCOCK. Do you think a Federal reserve bank located in Chicago, for instance, should have the privilege of saying or intimating to the Nebraska banks——

Mr. FLANNAGAN. If that was in the district?

Senator HITCHCOCK. If that was in the district—that they are extending their loans too much; that farmers are borrowing too much money for agricultural implements, that too much credit is being extended for building, and should indicate to the Nebraska banks that they must curtail their loans or, as a penalty for refusal, they would be restricted or perhaps denied the privilege of discount? Would you like that condition?

Mr. FLANNAGAN. I am inclined to think that it is necessary to have some restriction. I believe in the independence of the individual banks. I believe if you give them the power of circulation, as suggested this morning, that under all ordinary and normal conditions they can accommodate the needs of their customers and that when they go to the reserve bank it means, as a rule, that they are getting

beyond the capital of their own community. I think that the restraint is desirable.

Senator HITCHCOCK. The reason that they go to the Federal reserve bank is because they have been required to give up part of the capital that they are now using in their own community, and central and reserve city banks have been compelled to give up a part of the deposits which they are now holding?

Mr. FLANNAGAN. I doubt very much if it is burdensome on the individual banks under the provisions of this law that they are giving up very much capital on which they were earning profits before. If you take into consideration the reduction of reserve which is given them, you will find that the country banks are not restricted in the amount of their earning capacity. I think Senator Reed yesterday asked a question of Mr. Frame in that connection, figuring it on that basis; so that it seems to me, Senator, that you want some restriction.

Senator HITCHCOCK. Then you favor the development in this country of a power which will be able to dictate to the individual banks how far they shall go with their loans and what class of loans they shall take, how they shall treat their customers?

Mr. FLANNAGAN. I should want that power very much restricted.

Senator HITCHCOCK. Is it restricted in this bill anywhere?

Mr. FLANNAGAN. I am inclined to think it is.

Senator HITCHCOCK. Can you point it out?

Mr. FLANNAGAN. I will examine it more critically with a view of looking into that and let you know later.

Senator HITCHCOCK. I have not found it.

Senator REED. Do you think, in the absence of a restriction, that the influence of the reserve bank might be so exercised as to be potential to any great extent over the member bank?

Mr. FLANNAGAN. In the absence of any restriction whether it could be potential; is that what you mean?

Senator REED. Yes; and whether it is likely to be?

Mr. FLANNAGAN. The answer to the question is not clear in my mind. It seems to me that if your thought, Senator——

Senator REED. I will put it in a different way.

Mr. FLANNAGAN. Yes; it would be a help if you would.

Senator REED. We organize this system; we have a regional reserve bank for four great States, embracing 650 national banks. This bank is the only medium under the bill by which the banks can get money issued by the Government in the time of necessity or need; it is the place they go to regularly for discounts, etc. Does that vest in the management of that regional bank such powers and influence as to give that management a commanding or material influence over the member banks?

Mr. FLANNAGAN. I do not think so. The thought in my mind is that these reserve banks should be used as a combination of the assets of banking interests of the particular district in which they are located; that they should be friendly, a part of the system; that if there should be a period similar to the times when the combination of banks was heretofore made in troublous times—I do not mean that assistance should be confined to panicky or commercial crises, but I mean the fact that these banks exist in itself will be a tower of strength

to the balance of the banks; that there is a place where they can go and get assistance.

Senator REED. Which is the beneficent side?

Mr. FLANNAGAN. Yes.

Senator REED. A Government can not exist unless power is vested; and, assuming a perfectly beneficent and perfectly intelligent government, the more power you have centralized the better, but experience has shown us that in setting up a government we must put checks upon its power, because every time we have granted unlimited power we have had in the end unlimited abuse. That is by way of illustration. Now, while we are setting up these regional reserve banks, we must not set up a great power which might be exercised——

Mr. FLANNAGAN. To the disadvantage——

Senator REED. To the disadvantage of the member banks or of the general community.

Mr. FLANNAGAN. I agree with you exactly on that.

Senator REED. The question is not, therefore, whether these banks ought to be used for a beneficent purpose, but whether they can be used by evil-disposed people for bad purposes; that is the point. You say they ought to be used in a certain way. I grant you that, and if used in that way and only in that way they would, of course, be good thing.

Mr. FLANNAGAN. You must take into consideration the organization of these banks. You see that two-thirds of the board of directors of these banks are selected by the member banks—men who are interested in the member banks—so it is natural to be supposed that their interest will be interlocking and mutual.

Senator REED. That is all right, so far as the member bank is concerned, but how about the public—the community?

Mr. FLANNAGAN. But the reserve banks do not come in contact with the community except through the member banks.

Senator REED. What I have in mind is this—I am not trying to argue a question with you; I am trying to direct your thoughts to a question—the territory of Nebraska, Missouri, Kansas, and Oklahoma, with approximately 600 banks in it, all now separate and independent from each other, is organized into a region, and some place in it is located a regional reserve bank. There must be a human management and there must be a dominating influence and mind controlling that management. I take it that would necessarily be the president of the bank and the six members of the board selected by the banks. You are a banker in the city of Omaha, and, like all banks, you are expanding your credit as far as you ordinarily can in order to make money with safety, as you regard it. You get pretty close to the edge at times——

Mr. FLANNAGAN. Get pretty close to the edge——

Senator REED. The danger edge sometimes, and you know that there may come a catyclism of some kind which you can not anticipate, and when that time does come there has been provided one place for you to go for help. I am the president of this regional reserve bank—the only way I will ever get the presidency is in this illustration——

Mr. FLANNAGAN. You are the president.

Senator REED. Suppose I say to you, as time runs along, "Mr. Flannagan"—I am going right back to the very illustration which

Senator Hitchcock used—"you are carrying too large farm loans. Are you not carrying them at too low a rate of interest? Do you think that is good banking?" Would you not be very likely to hearken to that suggestion?

Mr. FLANNAGAN. Your question is so long I have really lost exactly what is the position you give me. I understand you are the president of the regional reserve bank. Where am I?

Senator REED. You are president of the local bank in Omaha.

Mr. FLANNAGAN. I am the president of the local bank? Now, what is the question, Senator. [Laughter.]

Senator REED. Is there anything especially amusing about that question?

Mr. FLANNAGAN. It is amusing about my getting lost.

Senator REED. The question was neither very long nor very involved. You just let it slip out of your mind, which we are all likely to do. I am the president of the regional bank in this illustration, and you are the president of the bank in Omaha, which is a member, and you are loaning large sums of money throughout the State of Nebraska, and I say to you, "Do you not think that you are putting out too many loans, and that you are loaning at too low a rate of interest." Do you not think you would be very likely to hearken to that suggestion?

Mr. FLANNAGAN. I certainly do; yes.

Senator REED. Suppose I was to say to you:

You are paying 3 per cent interest on deposits. I think that is more than a bank ought to pay; I do not like it; I would a little rather not discount your paper so heavily that you bring in here.

What do you think you would do?

Mr. FLANNAGAN. I should probably say—I would maintain my right of action—I am the Omaha bank and you are the Federal bank saying to me that—I should probably say to you, that—

I should prefer to maintain my independence of action; that I am managing my bank in accordance with the best judgment of my board of directors. I will tell them that you think we are paying too large interest on deposits. If they decide that it is too large, and that your opinion is of such a nature that we ought to discontinue, or you can show me wherein that that is true, then I will reduce it, but I will take your opinion under very serious consideration.

That is the way I would answer that.

Senator REED. I understand, of course, that a bank that is perfectly strong and always was well within its resources could afford to be independent. What I am really trying to find out, is whether there is a danger, through this mere organization of a condition ultimately being brought about whereby that central organization becomes the inspiration and practically the guide for the policies of the member banks.

Mr. FLANNAGAN. I do not think that that follows at all. I think the independence of individuality is preserved under the organization of the banks themselves, especially if you will give them all the normal functions of banking.

Senator REED. Do you think there would be any danger—here is a great enterprise, obliged to be carried on by large advancements from the banks—of that enterprise being wrecked by a suggestion from me, as president of the regional bank, that I did not think those securities desirable for rediscount?

Mr. FLANNAGAN. But, under the regional reserve banks, you are not allowed to take those; that is not the purpose of the regional reserve bank, to furnish capital for outside——

Senator REED. You did not understand me. Assume that there is a large institution, a heavy borrower——

Mr. FLANNAGAN. Not a bank, but an industrial?

Senator REED. An industrial, a merchant, having to carry large amounts of paper, so much so that one bank does not carry it as a member; and I was to say, as president of the regional bank, that we did not care to rediscount that paper. Would not there be great danger that that would wreck that institution, because every bank within reasonable limits, as a member of the regional bank and must all come to me finally to rediscount that paper——

Mr. FLANNAGAN. I would think that if you, the president of the reserve bank, were undertaking to regulate the industrial development in my particular section that you were going beyond your powers.

Senator O'GORMAN. Would you not be likely in that event to appeal to the reserve board in Washington and have some change made?

Mr. FLANNAGAN. I probably should.

Senator REED. Suppose I do not put this on you as an absolute demand, and say "I will not take it," but simply say, "Now, we do not just like this paper. Do you not think you had better go a little slow with it?"

Mr. FLANNAGAN. I would tell you I had respect for your opinion, and I would consider it, but that I would not let that be the final influencing cause for my action.

Senator REED. I want to get at the question as to your candid judgment whether that would not be very likely, in many instances, to close the credit of that whole region to that enterprise?

Mr. FLANNAGAN. I do not think so, Senator. I do not think such a power of an individual could be exercised to the detriment of a whole community of that sort, by the expression of an opinion, when the men in active control of the capital in the community favored it, and I do not believe as the Federal reserve president, you would attempt to put your judgment against the local judgment on a local enterprise.

Senator REED. I think, on the other hand, without any experience in banking, that if I was president of the reserve bank and saw a lot of that paper coming in, and I began to doubt as an individual, I would be very likely to suggest it to the men who came in with it to me to rediscount, and when I did do it I sort of have an idea that that institution, having no other place to go for money, because of this organization, except to the member banks, would go out of business.

Mr. FLANNAGAN. Not until the president——

Senator O'GORMAN. Could you not appeal to a board?

Senator REED. What would the credit of an institution amount to if they are compelled to come up here to Washington in an appeal?

Mr. FLANNAGAN. I think it is an abstract question.

Senator REED. I do not think it is an abstract question.

Mr. FLANNAGAN. In point of fact, do you not think that the local bank president would show to the Federal reserve president that his

position was not correct? Would he not lay out his books open to him and say, "Here is what I have got; here is the statement of my condition," and the Federal reserve bank, not having any prejudice against this man, not desiring, as a matter of prejudice or feeling, to discourage his development, would naturally be open to conviction.

Senator REED. Suppose he was a different kind of a banker. Let me illustrate to you what I mean: You and I know perfectly well that without any legal organization, but simply by virtue of combinations that have grown up, powerful concentration of wealth in the hands of a few great institutions, and some kind of community of interest, that it has happened time and again that great enterprises have suddenly found their credit shut off in the chain of banks they have been doing business with, and before they could establish a credit elsewhere their doors had been closed. That certainly has happened time and again in regard to great enterprises of this country—the squeezing process—and if it has been done by men—I was going to say wicked men, and I think I will use that term—outside of any regular progress of its growth, such an influence should obtain control of a lot of these regional banks——

Mr. FLANNAGAN. Oh, but that is impossible.

Senator REED. Why is it?

Mr. FLANNAGAN. That one influence can control any number of the regional banks?

Senator REED. Yes. Let me see if I can not illustrate that: I am not trying to be chimerical, and I am not trying to fight this bill, but I am trying to find out if there is a danger in it. If there is a danger, I want to know it.

One banker the other day testified that when you came to select the board of directors of the regional bank that it was his opinion that the great banks, being largely interested and very active, would probably be active in the matter of the selection, and the smaller banks would be probably somewhat inactive or uninterested, and that the result would probably be that the directors would in the end be selected by the same important banks of the district. Do you think that is likely to obtain?

Mr. FLANNAGAN. No; it could not happen, because under this law the banks are divided into classes, according to the different capital, and each class of banks select electors which elect, so that each class of banks would necessarily be represented, the smaller banks as well as the others. It is impossible for any individual to use influence in that regard. I think that is absolutely impossible.

Senator REED. I am sticking to one reserve bank. When I get through with that——

Mr. FLANNAGAN. I understood you to say they might have several.

Senator REED. That was in a former question. I am now referring to one reserve bank. I want really to get your best judgment about this matter. I have had something to do with politics.

Mr. FLANNAGAN. I think you have.

Senator REED. And I have seen a law that gave to every voter the same right to vote and the same right to participate in a primary, and I have seen these glorious direct primaries, and I have seen the same half-dozen men running the very primary where everybody had a right to vote. They ran the thing when we had the old caucuses and the old conventions. The reason they ran them was

because of their activity, their intelligence, their constant planning and work. Is it not very likely that when we come to elect the board of directors of a regional bank, that the big, strong men, the active, virile bankers will be the ones who are selected, instead of the smaller, the obscure, and the almost unknown men?

Mr. FLANNAGAN. I think those are the men who ought to be selected, the big, strong, active men.

Senator REED. When you get to that kind, is it not true to-day that the big, strong, active, virile bankers of the large cities of this country are nearly always in a direct or indirect alliance with the big, strong, bankers of New York City and other money centers?

Mr. FLANNAGAN. I think they have desirable connections; yes.

Senator REED. And there is frequently a stock ownership running through them, is there not?

Mr. FLANNAGAN. That may be. I am not posted as to that.

Senator REED. If that is true, why is it not entirely possible to work out not only a dominating control in one regional bank, but to unite that control with several regional banks; and does not that sort of control to a great extent exist to-day without any Government organization?

Mr. FLANNAGAN. I do not believe that that is a practical result to be feared. I think that that is one of the reasons why you want a number of Federal reserve banks. I do not think you want to make one section dependent upon another. I think you ought to make the association of the banks of the district uniform as much as possible, so as to have each district independent of every other district. And I think that is one of the great reasons why you want several districts. That is the great objection to the central bank, and the further you get away from it, within certain limitations, the better.

Senator REED. Then there is a danger point somewhere that you want to avoid, is there not?

Mr. FLANNAGAN. I do not believe the danger exists under this bill, Senator.

Senator REED. Let me follow that a moment. I want to illustrate how far this can go. This committee was waited on by a committee of the American Bankers Association.

Mr. FLANNAGAN. Yes; I saw the report.

Senator REED. All of them agreeing absolutely upon a program. They were very fine, elegant, intelligent gentlemen. Do you not think that there was a dominating mind down there that picked these men and sent them here with this canned argument and philosophy?

Mr. FLANNAGAN. Well, Senator, I do not believe I ought to express any opinion about that.

Senator REED. I have one which I would unhesitatingly express—not that I am criticizing them, but there must have been a dominating force. I think it was here.

Mr. FLANNAGAN. In Washington?

Senator REED. Here in Washington. I think it came here to Washington. I think it had "side-burns" when it came, and I say that respectfully. There was before us a banker from an extreme southern city wedded to this doctrine and most forcefully advocating it. I have been informed that his bank has very close and intimate connections with New York City to-day. I want to know

if those forces that exist, having reached out with their ramifications in many directions, it would not be very likely that in a short time they would control and dominate every one of these regional banks so far as they can be controlled and dominated under the terms of this bill. Of course there is a governmental control above.

Mr. FLANNAGAN. I think danger from influences derogatory either to the welfare of the individual banks, or the people is covered in this bill. I do not believe that you need fear the concentration of the money power—if that is what is in your mind.

Senator REED. Would not that be lessened, if instead of giving the banks the right to select two-thirds of the members of the boards of directors, the Government, the people, selected at least half?

Mr. FLANNAGAN. No; I think that the representatives of the banks, in the Federal reserve banks, of two-thirds, is as it ought to be. They are the men that contribute the capital; they are the men that are interested in the individual banks who compose the Federal reserve banks.

Senator REED. Did you not pretty clearly demonstrate here this morning that they did not contribute the capital, that the people of the United States contributed all of the banking capital excepting a bagatelle?

Mr. FLANNAGAN. No.

Senator REED. I thought I so understood your paper. I believe you will have to revise it.

Mr. FLANNAGAN. Oh, no; I will stand by that paper.

Senator REED. It is a very elegant one.

Mr. FLANNAGAN. When I say the capital of the Federal reserve banks, I mean the capital stock which is contributed by the other banks. I am not speaking of deposits in this.

Senator REED. That is what does the banking business.

Mr. FLANNAGAN. But the Federal reserve banks are going to handle large deposits from the Government. It is going to be a means where the people are going to get the use of money that has been tied up.

Senator REED. So much the more reason, if it is the people's money, that the people should have something to say about it.

Mr. FLANNAGAN. I think the people ought to have something to say.

Senator REED. But you think they ought to have only one-third of the say. You and I know that the minority stockholder and the minority director is not anything more than an interested onlooker in the management of any corporation.

Mr. FLANNAGAN. Well, but don't you see that you have got over and above this control of the reserve banks, the Federal reserve board, which in my opinion ought to be where it is. You have got over and above that the Federal reserve board which is composed of Government officials?

Senator REED. Yes; but what right of control, after all, has that Federal reserve board? What can it do?

Mr. FLANNAGAN. What right of control?

Senator REED. Yes; what can it do?

Mr. FLANNAGAN. The powers of it are claimed to be so immense that that is what the bankers are kicking about.

Senator REED. I know they have been kicking; but it is the same men that kick the most vigorously who were the men who wanted one central bank privately controlled.

Mr. FLANNAGAN. But I have always opposed that.

Senator REED. And the right to establish branches?

Mr. FLANNAGAN. Yes.

Senator REED. So that in view of their appetite we need not be surprised if they send up their bowl like Oliver Twist did, very frequently?

Senator BRISTOW. I think, Senator, that all they asked was that we give them one-third representation on the Federal board.

Mr. FLANNAGAN. I do not think that they are entitled to any in that board.

Senator REED. I am interested in this thing from this standpoint: I mean whether they have a real control. I am questioning it now. I do not mean I am passing on the bill. This bill provides that one of these regional reserve banks shall have all the powers of a national bank. That is not the exact language, but that is what it means. A national bank has very broad powers. In addition to the powers which are expressly granted to a national bank are all of those common law property rights which every proprietor has over his property save and except as that right is expressly restricted. You give to a Federal reserve board certain limited powers of regulation. I would like to ask you if you have examined this bill with reference to just what a Federal reserve bank could do if it wanted to go to the extreme of its rights? Has it not got very broad powers?

Mr. FLANNAGAN. I have examined the bill, but not critically with that point in view. If you will turn to this report—I do not know the place. Perhaps somebody more familiar with it than I will tell me where the powers of the reserve board are recapitulated?

Senator O'GORMAN. You will find them all on pages 21 and 22; and as bearing upon the control that the Federal board has over the regional board, look at subdivision F on page 22, which confides to the Federal board the power to suspend the functions of Federal reserve banks, in substance, whenever they see fit.

Mr. FLANNAGAN. That is in the bill, but it is very much fuller in this report.

Senator SHAFROTH. On page 46 the powers of the reserve board are set forth in smaller type and they are quite elaborate.

Mr. FLANNAGAN. Senator, if you will read page 46 and page 47 of the report, No. 69, of the Banking and Currency Committee of the House, it gives you in detail what the powers of that Federal reserve board are, and if you will read them I think you will find that they have considerable authority.

Senator REED. I would rather read the bill than that comment.

Mr. FLANNAGAN. This is a summary of the various clauses in the bill, because all the powers of the Federal reserve board are not stated under that title of the bill, "Federal reserve board." They are scattered throughout the bill in various places. I think they are pretty full powers, and are summarized on pages 46 and 47.

Senator REED. I did not start this with the idea of arguing. I wanted to know if Mr. Flannagan had studied that, for my own information. I have got some opinions of my own about it. But if

you have not, Mr. Flannagan, I would be glad if you would look at it, and see how far this might be of use.

Mr. FLANNAGAN. Mr. Chairman, may I continue? I would like to go away somewhere near 5 o'clock. I am just going down in Virginia.

Senator O'GORMAN. What page are you on now?

Mr. FLANNAGAN. I have forgotten.

Senator O'GORMAN. I think you were on page 33.

Mr. FLANNAGAN. If you will continue that same page, I think the intention can fully be carried out and the expression made clearer by a slight change in lines 14, 15, and 16. I would suggest that in the fourteenth line, after the word "receive," you insert the words "from any member bank," so that it will read: "Reserve bank to receive from any member bank, on deposit, at par, without charge for exchange or collection, checks, and drafts"; and after the word "draft," "payable upon presentation," because you certainly do not mean that it shall receive time drafts.

Senator HITCHCOCK. Sight drafts?

Mr. FLANNAGAN. The reason I would not use the word "sight" is that in some States "sight" gives three days' grace, and in some States demand gives grace. So if you have "payable on presentation" it gets rid of both. In Massachusetts, for instance, I think, the sight draft has three days' grace.

In the sixteenth line, from the word "or" to the word "depositor" in the seventeenth line, can be erased, because the same idea has been conveyed above. That is, you would erase the words beginning at "or," in the sixteenth line, then reading as the text reads until the last two words in the nineteenth line are reached, which may be erased.

In the twentieth line, after the word "contained," insert the word "is." After the word "patrons" in the twenty-third line, I would suggest: I regard this provision of this bill requiring Federal reserve banks to receive from other banks checks and drafts payable elsewhere at par, of the greatest importance, because it makes the deposits in all the banks at par with other deposits which can be circulated by means of checks which would then be received at par; but you do not want that privilege to be abused; and I therefore think that if you would put in some clause so that if individuals deposit checks for the purpose of procuring credit, or what is termed "kiting," they shall not have that privilege. Consequently, I propose the insertion, after the word "patrons" in the twenty-third line, the following. Under misdemeanors you will also have it covered, if you wish to make it a crime to do any regular kiting, which we will come to later, but this insertion reads as follows:

Any person, firm, or corporation having had its check or draft returned under protest through a Federal reserve bank for nonpayment shall not thereafter be entitled to the benefits of clearing through the reserve bank, and the said reserve bank, at its discretion, may refuse from a member bank as a deposit the check or draft of such person, firm, or corporation.

The effect of that would be that protested items would be regarded with some concern, and they would not often come back through the Federal reserve banks; that they would be settled at the member banks where they came from or were presented.

In pursuance of that idea of having a parity of exchange throughout the country you will observe that on the next page, page 34, the Federal reserve board may exercise the functions of a clearing house. I believe that there is no machinery connected with this bill at all whereby a Federal reserve board could act as a clearing house, and it would be necessary to change the whole proposition if they did; that is to say, they do not keep money, and they do not keep books of account, and they do not have deposits with anybody. Nor do clearing houses have the latter. The board is not in the position to exercise the functions, and consequently I think you ought to insert, after the word "discretion" on the first line of that page, where it says "designate one Federal reserve bank to exercise the functions of a clearing house," and change the word "such" into "all Federal reserve banks," and then erase "or may designate a Federal reserve bank to exercise such function.'

Of course as it reads, you can designate a Federal reserve bank to exercise such functions, but you reserve the right of the Federal reserve board, and it seems to me it is useless, because they can not do it. The thought is that each Federal reserve bank may act as the clearing house for all of the banks in its district, and that one Federal reserve bank may be designated to act as the clearing house for the other Federal reserve banks.

On page 35, line 17, it would be necessary to insert, after the word "outstanding" the following words, "which are secured by a deposit of United States bonds," if you adopt the suggested amendment for allowing individual banks to issue circulating notes against a deposit of discounted notes and gold. In line 20, after the word "and" and the word "notes," you should insert the word "such," referring to the notes then outstanding.

We have already discussed the provision of gold-secured notes, which is added at the end of that section after the word "obligations" in the eighth line on the thirty-sixth page.

Under "Bank examinations," page 40, line 23, it is provided that the Comptroller of Currency shall so arrange the duties of national-bank examiners that no two successive examinations of any association shall be made by the same examiner. I suppose the purpose of that was to prevent any collusion between the bank examiner and the banks; but that is amply provided for under the head of misdemeanors, and it seems to me that it is unwise to deprive the comptroller of the benefit of the knowledge that one bank examiner may have by examining a bank, to be used for his benefit, for a subsequent examination. I think those words should be erased.

Senator SHAFROTH. But that does not prevent the Comptroller of the Currency the time after that to order it to be done and thereby take advantage of his experience.

Mr. FLANNAGAN. They do not examine them, ordinarily, more than twice a year. The Comptroller of the Currency can send another examiner, without taking that authority away from him. That is, you would not allow him to send the same examiner there twice. He could not to it, and why is it desirable to prevent that?

Senator SHAFROTH. In order to prevent collusion between the examiner and the bank. Of course it is not likely to occur, but we have some banks that carry assets that are not very good assets.

Mr. FLANNAGAN. But I do not think that it has ever occurred that there was any collusion between the examiners and the banks.

Senator SHAFROTH. Still, there is another provision in here against an examiner receiving any presents.

Mr. FLANNAGAN. I was going to say that I think that is covered under misdemeanors, but of course that is just a mere suggestion.

You will observe that there is a great quantity of increased examinations on page 41, line 15:

That the Federal reserve board is required to have at least four examinations a year

In the preceding paragraph the Federal reserve bank can have any number of examinations it wants, and those are in addition to the examinations made by the comptroller. Consequently, if all of these examinations were made, you would have a useless expense, and have the banks continually being examined much more than necessary. My thought is that you might utilize the examinations made by the comptroller as a part of that minimum amount of four times, if they decided to do it, by adding after the word "cities" in the seventeenth line the words:

but the examinations under the direction of the Comptroller of the Currency may be included in the minimum number herein required.

In section 24 there should be a heading of "Misdemeanors." There is no heading. In the eighteenth line of page 42, if you will read it carefully in regard to that paragraph beginning "no officer or director," you will find, it seems to me, that it is capable of the interpretation that an officer or director could not draw his salary or receive any benefit from the bank that employed him.

I wish Senator Hitchcock would read that carefully and see if that is not so.

Senator HITCHCOCK. It seems to me that the prohibition is just against receiving a fee or a commission or other consideration for or on account of any loan, purchase, sale, payment, exchange, or transaction with respect to stocks, bonds, or other investments.

Mr. FLANNAGAN. Yes.

Senator HITCHCOCK. It is not against receiving compensation for services to the bank.

Mr. FLANNAGAN. Ought not that to be made clear? Because it says any transactions of the bank. If you made a discount, that would be a transaction.

Senator HITCHCOCK. For any particular thing that the bank may extend to its customers.

Mr. FLANNAGAN. Would it not be better—I am just throwing this out as a suggestion—but would it not be plainer in the eighteenth line, after the word "beneficiary," if you would put in "any person, firm, or corporation other than said bank," and then let it read "either directly or indirectly."

Then we come to the question of kiting. As stated before, if we prohibit the clearing of people who have protested checks, and then in addition make it a misdemeanor for people who procure money by that means, I think you will have removed any danger of that sort.

Senator SHAFROTH. Before you leave that, let me get your interpretation of this: From the language you have inserted, after the

word "beneficiary", "from any person, firm, or corporation other than the said bank," would it not relieve any officer or director of the bank from any of the prohibitions that are contained in that section?

Mr. FLANNAGAN. Would it?

Senator SHAFROTH. Would it not be an exception, and therefore they could take a fee or a gift?

Mr. FLANNAGAN. But he could not take it if it was from any firm, person, or corporation other than the bank.

Senator SHAFROTH. No, that is true; but he could take it from the bank.

Mr. FLANNAGAN. But the bank does not pay commissions for that business. What you are trying to do is to keep people from bribing bank officials.

Senator SHAFROTH. You also want to keep the bank officer, by reason of his power as a director, from doing things or receiving a commission or gift or something of that kind, in consideration for his getting the bank to do it. For instance, it is a thing that often happens. I go into a bank and I say, "I want some money." He will say, "I can not give it to you, but I can lend you it personally, and if you give me 4 per cent for the privilege I will get the money for you and pass it to your credit in the bank." That, no doubt, is intended to prevent just such a thing as that. It is not very often done, but it has occurred. I have had it occur to myself.

Mr. FLANNAGAN. I am perfectly in accord with what I consider the purpose of that section, that a bank officer should not receive any compensation of any description for the functions exercised by the bank, except his salary.

Senator SHAFROTH. Would not this exception of yours eliminate him from that punishment?

Mr. FLANNAGAN. My thought is that it would not, but I may be mistaken. You had better ask somebody who is a better lawyer than I am. I just throw it out as a suggestion.

Page 43, after the word "jurisdiction" in line 5, I think if you will insert this it will prohibit any chance for "kiting," and be a protection to all of the banks:

Any person, with the intent to obtain credit on the books of a member bank, or the money and funds of said bank, who shall deposit or cause to be deposited in such bank any check or draft, knowing the said check or draft not to have been drawn against existing credits or to be fictitious in its nature or in its inception, shall be guilty of larceny; and any officer of a member bank who shall sign any check or draft on another member bank and deposit or cause the same to be deposited in any Federal reserve bank, knowing such check or draft not to be drawn against existing credits, or to be fictitious in its nature or its inception, shall be guilty of a misdemeanor, and shall be punished by fine or imprisonment in the discretion of the court having jurisdiction.

You might prescribe the penalty if you approve of the idea.

Senator SHAFROTH. I think that is a good suggestion.

Mr. FLANNAGAN. Before section 25 I think the heading ought to be inserted: "Stockholders' liability." I think that the idea carried out in that section is that anybody who transfers the stock of a national bank shall be liable for 60 days under the provisions of the national-bank act, which provides a double liability, and it seems to me that the prohibition in many cases would work a great hardship, and that it would have a tendency to deter people from owning

national-bank stock; that the purpose to be attained is the punishment of wrongful intent, and that either on the part of the transferer, and especially on the part of the officers of the bank who would naturally be supposed to have knowledge of its failing condition. I would therefore suggest that you insert in the eighteenth line, after the word "obligations"—

with the intent to avoid any liability or presumably with the knowledge of the bank's insolvency.

On page 46, line 9, I think there is an error; that the word "upon," next to the last word in the line, ought to be changed to "under."

On page 47 the eleventh line reads:

shall be authorized to accumulate and loan the funds of its depositors.

In point of fact, no depositor has ever any funds in a bank. That is a great mistake. They have only got the debts of the bank, and the bank never loans the funds of the depositors; it loans its own funds. So I think that ought to have inserted in it the word "to" after the word "and" and before the word "loan," and the last word in the line, "of," erased, and substitute "received from." So it would read:

to accumulate and to loan the funds received from its depositors.

On the forty-eighth page, the fifth and sixth lines, the last word in the fifth line and the first word in the sixth line, I think ought to be erased, because the question of keeping separate books for individuals will hardly apply to the bank itself. I think it ought to be for its exclusive use, meaning the bank.

The CHAIRMAN. What is your suggestion on lines 5 and 6—that the word "individual" shall be stricken out?

Mr. FLANNAGAN. It is immaterial; it does not mean anything.

In the seventeenth line on the same page, after the word "country," I think it is the intention that the list therein referred to should be uniform for the district, and I think it would be well to add after the word "country," "and uniform for each Federal reserve district."

On the forty-ninth page, seventh line, the word "wilful" is wrongly spelled.

On the eleventh line of the same page the word "felony" is used. The lawyers on your committee would probably decide that it ought to be a "misdemeanor" instead of a felony; but that is for their consideration.

On the same page, if you are going to allow national banks to have branches in one municipality, in which they are located, as I previously stated, the word "foreign" of the heading should be erased, and in the seventeenth line, after the word "capital" the word "stock" should be inserted, and after the word "more" the following:

may with the approval of the Comptroller of the Currency establish one or more branches within the corporate limits of the municipality in which it is located, not exceeding two such branches for each million dollars of capital stock, and—

Those are all the suggestions I have to make.

The CHAIRMAN. We are very much obliged to you, sir.

Senator HITCHCOCK. To what extent, under the terms of that bill, would you think the Federal board of control would have the power to expand or contract the credits of the country?

Mr. FLANNAGAN. None whatever, because the initiative must come from the Federal reserve banks. You asked me their power, did you not?

Senator HITCHCOCK. Yes. Suppose the Federal reserve banks apply for currency: The Federal reserve board has the power to state at what rate of interest that currency shall be furnished. Is not that true?

Mr. FLANNAGAN. I think that is true; but my thought was, Senator, that that matter of interest was really a question of taxation. It must be very, very low.

Senator HITCHCOCK. Let me see about that. Suppose, now, the Federal reserve board establishes a rate of interest of 5 per cent. The banks would not get very much of it, would they?

Mr. FLANNAGAN. No, they would not want it.

Senator HITCHCOCK. Suppose, now, it goes to the other limits of the bill and establishes a rate of interest of one-half of 1 per cent?

Mr. FLANNAGAN. There is a limit mentioned in the bill——

Senator HITCHCOCK. Of one-half of 1 per cent.

Mr. FLANNAGAN. Is it that?

Senator HITCHCOCK. The reserve bank under that rate of interest would undoubtedly take out a great deal of currency.

Mr. FLANNAGAN. Would they, necessarily?

Senator HITCHCOCK. What is your experience as a banker? When a man can get currency at one-half per cent, will he get more than he would if he had to pay 5 per cent?

Mr. FLANNAGAN. Yes; but you must take into consideration that this currency is the debt of the reserve bank which would be turned over to the Federal reserve banks for issuance in that form when they need it; and if they could borrow that currency at one-half per cent they would probably ask for a great deal of it, if that was all it cost them.

Senator HITCHCOCK. So that the Federal reserve board has the power to expand credits of the country?

Mr. FLANNAGAN. You mean through regulation of the rate of interest, or the issue of reserve notes?

Senator HITCHCOCK. Yes.

Mr. FLANNAGAN. Yes; I suppose that is true.

Senator HITCHCOCK. That is the only system that the Bank of England uses; and even by a small change of one-half of 1 per cent it makes a tremendous difference in the volume of business.

Mr. FLANNAGAN. There is no question about that.

Senator HITCHCOCK. Then give a board the absolute extreme power to fix the rate of interest to reserve banks anywhere over one-half of 1 per cent, up to 5 or 6 per cent, and you would still say that the Federal reserve board had not the power to expand or contract credits?

Mr. FLANNAGAN. Well, perhaps in that view of the case I was wrong.

Senator HITCHCOCK. Suppose a case in which an administration is in power, and the President has appointed seven members of this body. They are his creatures. The President is up for reelection, and the question before the American people is whether the country is prosperous or not. With the Federal reserve board appointed by the President, and having the power to expand or

contract credits, do you think that the Federal reserve board would have considerable effect to give an appearance of prosperity?

Mr. FLANNAGAN. The Federal reserve board have not the initiative; they can not go and issue this paper currency unless a bank applies for it. Nor can the reserve bank issue it unless a member bank applies for it.

Senator HITCHCOCK. Very true. But suppose, now, banks are always using money, or, always making loans—the national banks of the country have something like 8,000 millions of loans outstanding now, and there is a strong demand for money more or less all the time, or for credit. Suppose the Federal reserve board, in its desire to have the wheels of business turning actively, and having money cheap, fixes a rate of one-half of 1 per cent? Suppose it reduced the rate to 3 or 4 per cent before that?

Mr. FLANNAGAN. They do not regulate the rate; the Federal reserve bank regulates the rate of discount.

Senator HITCHCOCK. But the Federal reserve board regulates the rate——

Mr. FLANNAGAN. They have got supervision over it.

Senator HITCHCOCK. No; the Federal reserve board regulates the rate which the Federal reserve banks pay for currency.

Mr. FLANNAGAN. They have not the initiative.

Senator HITCHCOCK. No; I did not say they had; but the Federal reserve board has the power to regulate the rates which the Federal reserve bank pays for the 200 or 300 millions of dollars which they secure in currency, or the 700 millions, or the 1,000 millions, for there is no limit. Suppose they put it down at one-half of 1 per cent, which is almost nothing. Is it your opinion that they would give a tremendous boom to business, and might very largely influence the political organization?

Mr. FLANNAGAN. Yes; but, Senator, you have got in your mind that the Federal reserve board, for political purposes, would say: "We will fix this tax low," and then the Federal reserve banks would unite with the Federal reserve board for the purpose of advancing some particular political party, and taking out this money. That seems to be a rather strong presumption.

Senator HITCHCOCK. Let us see about this: John Smith wants to borrow money of his bank in a certain time. He applies to the bank for money——

Mr. FLANNAGAN. And that is a member bank.

Senator HITCHCOCK. To a member bank, yes; and the member bank, if it has funds with the central reserve bank, will discount notes at a very low margin, and then it can make a handsome profit by loaning to John Smith or 1,000 John Smiths, and then it will apply to the Federal reserve bank, and it will secure a discount at a low rate of interest because the Federal reserve bank has currency available at one-half of 1 per cent. Suppose the Federal reserve bank was compelled to pay 3 per cent for this currency. It would say to the member bank, "You have to pay a larger discount for John Smith's note;" and the member bank would say to John Smith, "We can not loan you money at less than 8 per cent;" and John Smith would say, "I won't use it." Is not that the direct effect of it? Is not the power to control the rate of interest the power to expand credit and the power to promote business?

Mr. FLANNAGAN. But, my dear friend, does not the Bank of England have the power to control the rate of interest? Is it not by that very means that they regulate their reserves.

Senator HITCHCOCK. Is the Bank of England interested in any particular political party?

Mr. FLANNAGAN. I think not.

Senator HITCHCOCK. Suppose a case in which the creatures of a particular President have the power to control the rate of interest?

Mr. FLANNAGAN. Well, but they can only control it through a Federal—you say the Federal reserve board. Now, that Federal reserve board can only control it through the initiative of 12 Federal reserve banks. Those Federal reserve banks are composed of banks throughout the country united together for the purpose, and that Federal reserve bank can not get out this currency unless it is applied for by the member banks. Consequently, you have got to suppose a combination and everybody being of the same mind and of the same political view in order to get this out for political purposes.

Senator HITCHCOCK. I hardly think so. I think the initiative is with John Smith who wants to borrow the money. He is willing to pay——

Mr. FLANNAGAN (interrupting). If you will just get that out of your mind. It is not.

Senator HITCHCOCK. Well, suppose it is credit. We will not quibble on terms. But he wants to borrow—the ordinary term is money—at 5 per cent. If he can get it at 5 per cent he will get it. He can get it if the bank can rediscount paper at a low rate of interest with the reserve bank. The reserve bank will take the rediscount at one-half of 1 per cent where it might not take it at 3 per cent, and the result is that you have thousands of John Smiths at these banks all over the country, borrowing money because it is cheap.

Mr. FLANNAGAN. Have you not lost sight of the fact that 33⅓ per cent gold reserve has got to be kept?

Senator HITCHCOCK. Not at all. It is a smaller reserve than any of the banks of Europe have.

Mr. FLANNAGAN. I would like to make that 50 per cent.

Senator HITCHCOCK. That is not enough of a hinderance, in my opinion.

Mr. FLANNAGAN. I would like to get away at 5 o'clock, Mr. Chairman. I should like to add that the member bank must pay the discount rate of the reserve bank before it gets a credit on the books of the reserve bank, and that this discount rate is not fixed by the Federal reserve board. The interest or tax which is fixed by the reserve board is only on the circulation the Federal reserve bank may receive—it is a tax on this form of debt and is paid by the bank. It is a tax on the change in form of debt from the deposit created by the discount into the circulating note which the member bank may want. It should not be confused with the discount rate or rate of interest paid by the member bank and charged by the Federal reserve bank.

Senator HITCHCOCK. I am through.

Mr. FLANNAGAN. I wanted to catch a train, please, sir.

The CHAIRMAN. Have you any questions, Senator Shafroth?

Senator SHAFROTH. No, no; I wanted to ask you a question, but I think it is too late now.

(The following statement was filed with the committee:)

SUMMARY OF STATEMENT SENT TO GLASS COMMITTEE.

By IRVING FISHER.

The principal points at which the present banking system of the United States seems to me to need reform are as follows:

(*a*) It needs elasticity of note issue.

(*b*) It needs a change in the requirement as to reserve which will permit the use of reserve when most needed.

(*c*) It needs the gradual substitution of banking on acceptances and for commercial paper for banking on collateral security.

(*d*) It needs interconnection of loan markets for rediscount.

In addition to these reforms (all of which are closely related, of course) and some others of less importance concerning our banking system proper, there should, it seems to me, be also the following reforms, also closely related:

(*a*) All forms of money should be made expressly redeemable in gold, including silver dollars and greenbacks.

(*b*) Our Treasury should be more easily able to deposit its funds instead of retaining them as a useless and variable and so dangerous hoard.

As to (*a*) elasticity: At present the note issue of our banks is limited by the Government debt, and, therefore, not only is rigidly fixed as its upper limit, but, so far as fluctuation is at all possible, the tendency is for the fluctuation to be the opposite of what the requirements of trade demand. It seems necessary, therefore, that a more elastic basis should be supplied, either instead of the bond basis or better, in addition thereto. The natural basis would be bank assets consisting of loans of a commercial nature based on actual transactions and consisting in acceptances or commercial paper. These would vary with the requirements of trade and would therefore tend to become the basis for currency in exact fluctuation with the requirements of trade.

As to (*b*) reserve: There are various ways of rendering reserves available. At present, when our reserve reaches the legal lower limit, which is just the time when it is most needed, the requirements of our banking law are virtually that it shall not be used at all, and while this law is administered with leniency it results in an aggravation of the very stringency for meeting which the reserve is needed. It also puts a premium on the accumulation by country banks of useless reserve withdrawn from their deposit in New York and a consequent general paralysis of trade from insufficient currency media at exactly the time when such media are most needed. One method of overcoming these difficulties is that supplied in the Aldrich bill by which a bank can deposit its reserve with the central institution, securing its deposit by rediscounting commercial paper.

Another and I think a better method is to frankly revise the laws relating to reserve, make no limit to the percentage which the reserves bear to deposits, but apply a graduated penalty when the reserves are below a specified limit.

As to (*c*) commercial paper: At present some 20 or 30 per cent of bank loans are call loans on collateral security, a form which should be discouraged since its existence tends to aggravate speculation and the evils of speculation and since there is no vital relation between the volume of such loans and the volume of business. When currency does not vary with the volume of business the necessary result must be convulsions in prices. The Aldrich bill makes under ordinary circumstances rediscount possible only for loans based on actual commercial transactions. I believe this is a good provision and ought to be made even more definite and with perhaps less exceptions than provided for in the Aldrich bill.

As to (*d*) rediscounting: A central banking institution of almost any conceivable type would act as a clearing house or reservoir for connecting the loan markets of the country and our loan markets with foreign loan markets. The Canadian system of branch banking would accomplish the same result, although not so perfectly. One objection which I have to the Aldrich plan by which the present requirements as to reserves are left unchanged and the bank is allowed to count as reserve some deposit credit on the books of the central institution, is that it perpetuates and, in fact, aggravates the present indirect and complicated system by which banks and bankers are encouraged to count as cash that which is not cash. I believe the evils of this theory permeate the thoughts of many business men, especially bankers. In banking, if anywhere, just because confusions are so easy, we should be careful to call a spade a spade, and to make a careful distinction between cash and a claim on cash. The added simplicity and directness obtained by frankly acknowledging that in the last analysis the only reserve is cash and getting away from the fictional reserve with which we now delude ourselves would itself be a safeguard against unsound methods.

Now as to the two last reforms I mentioned which are not, strictly speaking, banking reforms. I have long felt that the National Monetary Commission did not live up to what it should have done and what it was appointed to do when it entirely omitted the subject of currency reform except as it related to banking. We have two very soft spots in our currency left from the time of the Civil War and the resultant effort which followed it. These soft spots are the greenbacks and the silver dollar, neither of which is at present properly speaking redeemable in gold, our ultimate standard. The greenback is explicitly redeemable but its redeemability is coupled with the requirement that it must be reissued. It would be a great step forward if merely the word "may" could be substituted for "must." When a redeemed note must be reissued it can scarcely be said to be truly redeemed in the strict sense of that term, and this reissue requirement has consequently made trouble for us, as for instance, in the Cleveland administration, when gold was being drained from our Treasury because of the "endless chain" by which the same greenbacks could be used over and over again for withdrawing gold from the currency and without any relief from redundancy by the cancellation of the greenback. Of course the redundancy was caused by silver, not by the greenbacks themselves; but had the greenbacks been not only redeemable but retirable, the endless chain would have ceased. We may never have such a situation again, but there is no certainly that we shall not, and in fact the very existence of the anomalous situation in which the greenback is now placed, contains a suggestion of menace for the future. It is an invitation to fiat money proposals and inflationism. Moreover, I believe it contributes to the general feeling abroad that we do not have a simple and definitive gold standard, a feeling which injures our national credit abroad.

As to the silver dollar, this is likewise an anomaly due to historical conditions. I emphatically dissent from the view that the Democrats can not afford to take up this subject. Everyone knows that we have no longer bimetallism and that silver is not coordinate with gold, and I think the Democratic Party would really gain and not lose if it would now take the bull by the horns and frankly make silver redeemable in gold, instead of leaving the present ambiguous proviso which merely directs the Secretary of the Treasury to keep gold and silver at par. Of course unless some further inflation is legislated silver will stay at par without any specific redemption proviso. But the present situation creates the same kind of menace and foreign distrust, as above referred to, regarding gold. I would go further and make silver certificates into Treasury certificates, redeemable in gold directly, and gradually release all the silver now constituting the silver dollars left in our Treasury so that they could be used as needed for coining subsidiary silver. It would probably be inexpedient, at present at least, to suggest the sale of this silver although this is the businesslike procedure and has a precedent in the action of Germany many years ago. It would not be necessary to make silver dollars subsidiary coins. They could still be unlimited legal tender so far as they would really be used.

Inasmuch as the reform of our currency is distinct from banking reform it would of course be advisable that any legislation as to greenbacks, silver dollars, and silver certificates should be separate from the legislation affecting banking. But I believe these currency reforms are almost as important and in a way more fundamental than the banking reform, if we are to build a permanent structure to endure in the future.

As to Government hoarding: This of course would be obviated if a central reserve institution were created. But it could also be obviated by making suitable laws requiring or encouraging the deposits of practically all the Government's funds among national banks. This situation is not as bad as it formerly was and the problem is perhaps gradually solving itself.

If a central bank is to be created, it seems to me that it ought to deal only with other banks and not to be a rival to them, for it was this rivalry which was largely, at any rate, instrumental in causing the discontinuance of the central banks previously tried in the United States.

While I would like to see a central bank permanently established in the United States, I think there is one danger in connection with its establishment, a danger which has very generally been overlooked. This is that the establishment of a completely equipped central bank might give such a tremendous impulse to the true deposit banking as to tend to greatly inflate that currency, well called deposit currency, as well as very likely to inflate the currency in the form of bank notes. In this respect I agree with the criticism which Prof. Scott and Mr. Garrison, of Madison, Wis., have made on the Aldrich plan, and also with the criticism made by ex-Congressman Fowler, who states that the establishment of the Aldrich plan would result in driving a great deal of our gold abroad. This, in my opinion, would not be the least of the evils of a sudden inflation of our bank notes and deposit currency. The really great

evil would exist in a rapid rise in prices and adding to our already excessive high cost of living.

In my opinion, one reason why American prices have risen more rapidly than the prices in European countries is the great increase in deposit banking in the United States since 1900. However excellent in itself any plan may be for giving banking facilities, one should never lose sight of the indirect effect of the system on the general level of prices. The idea that deposit currency can influence prices is not altogether familiar to those who have had to do with the problem of banking and banking legislation. Nevertheless, I agree that few propositions are more firmly established than this. I take the liberty of referring you to my own book on The Purchasing Power of Money and to the writings of others referred to therein. Ninety-three per cent of our business is now done by the check drawn on deposit subject to check. If we should suddenly eliminate all these deposits subject to check and be compelled to do all our trade on a cash basis, one can easily imagine what a tremendous contraction would result. Prices would fall disastrously. Reversely, if a country like France, which now makes little use of deposit banking, should suddenly adopt the habit and thereby equip itself with the means for effecting exchanges to the extent of four or five times its present facilities, the result would be an enormous rise in prices (partly spread over other countries, of course, through the expulsion of gold). At present the deposits subject to check in the United States are about four and a half times the actual money in circulation, and the total individual deposits are about 10 times the cash in banks. These ratios would be greatly increased if we should suddenly take off the restrictions on our banking reserve. While I firmly believe that these restrictions are injurious and should be removed, I think their sudden and complete removal would be disastrous. Mr. Farwell, I understand, has the same thought. Experience seems to show that where there is no restriction the ratio of reserves to deposits seldom tends to be much more than 5 per cent; in other words, that the deposit liabilities are likely to be some 20 times the cash in bank or twice the ratio now obtaining in the United States. Such an expansion would nearly double the available circulating media in the United States. A sudden increase of even 50 per cent would be disastrous. These possibilities ought not, of course, to stand in the way of creating a rational banking system, but they ought to cause the framers of the legislation to safeguard the introduction of the new system from letting out too much rope at a time.

While the important matter in this connection is to prevent an undue or sudden inflation of bank deposits, the same principle applies to the inflation of money in the strict sense. This is an additional reason why the introduction of a provision for more bank notes should be accompanied by the retirement of other bank notes and by the provision for a possible retirement of the greenbacks and silver certificates if rendered redundant. When Secretary McCullough in the sixties tried to redeem the greenbacks, the contraction of the currency was felt to be unfortunate, and it was at that time, as prices were falling. It was doubtless largely because of the feeling of protest against falling prices that the proviso was made in the law of 1878 preventing further contraction of the greenback. But to-day we have the opposite situation, and therefore the golden opportunity to do what McCullough could not do in the sixties without injury to the public.

I scarcely see how it would be in the public interest to maintain the present bond-secured currency, or at any rate to avoid reducing its amount. It is a necessity to get an elastic currency, and this elasticity must be secured from some other form of currency than bond-secured currency. If the present bond-secured currency is kept in circulation, then, in order to have any real elasticity in the currency as a whole, it is evident that we should need to have a very large addition to the currency in the form of new asset currency notes. Mere $50,000,000 or $100,000,000 of elastic currency added to our present system would produce very little elasticity, as it would form too small a proportion of the whole, a large mass of which, the major part, is inelastic and rigid, would not be really elastic. In other words, if we retain our present bond-secured currency we should need in order to secure elasticity to produce inflation. But to my mind inflation would be as great an evil as inelasticity. It follows, therefore, that in order to secure elasticity, and at the same time to avoid inflation, we must retire the present bank notes secured by bonds, or else entirely retire the greenback and the silver certificate, both of which are also now inelastic elements in our system.

I think our bonds should be paid as fast as they mature. One of the evils of the present system is that the Government must keep in debt in order to keep bank notes in circulation. It is true that our bonds in market value will show a very considerable shrinkage if they are no longer available as the basis for bank note currency, but the truth is that they now have an artificial value. We do not boast that our bank notes are well secured because they are based on bonds of high value, for-

getting that the high value of these bonds is itself due to the fact that they are used to secure the notes. Of course, in fairness to the banks whose funds are now invested in these artificially high-priced bonds there should be some privilege or advantage accruing from the new system, whether this substitution of a new advantage for the old one lost is accomplished in the manner provided for in the Aldrich bill or in some other way.

Among the provisions of the Aldrich bill which do not appeal to me is that requiring a uniform rate of interest throughout the country. It seems to me too artificial and also of doubtful value. In this respect Mr. Farwell's plan, as in other respects, seems to me superior.

The Aldrich plan also, it seems to me, gives insufficient power to the President of the United States and to our Government generally, and also insufficient to others than bankers in the management of the bank. The Government should have power to modify the charter within proper limits. Since the Dartmouth College case, a charter has come to be regarded as an inviolable contract rather than a license. Therefore the only way to safeguard against inflexibility in the charter is to make due reservation at the outset. It will be difficult to forecast exactly how any plan will work, and the Government, which is making the plan, should reserve the right to change it in advance. The provisions in the Aldrich plan for electing the various grades of officers and electors seem to be extremely complicated. Complicated machinery of this kind generally ends in manipulation by the few who thoroughly understand it and, even when it does not do so, it is likely to create the suspicions of such manipulation in the popular mind.

I have recently been interested in a plan proposed in 1906 by Mr. Barron, now proprietor of the Wall Street Journal, and Mr. Sereno S. Pratt. This plan was aimed merely to avoid crises by providing temporary elasticity under a penalty. It resembles in principle the plan used in Germany and in some respects the plan in England of suspending the bank act at the time of an impending crisis. I attach a copy, with Mr. Barron's permission, in the thought that you may be interested.

I take this opportunity to state my conviction that the problem of banking and currency will never be satisfactorily solved nor the evils of rising and falling prices with the alternation of crises and depressions reduced to a minimum until we have gone a step further than merely regulating the operation of bankers. We can not stop short of regulating the unit of value itself. Every other unit in commerce has been standardized, but the dollar is still a mere unit of weight, although it is used in contracts extending over generations as a unit of value of purchasing power. Whether my particular plan for standardizing the dollar or some other be employed, I believe with Sir David Barbour (who was largely responsible for introducing the currency reform into India 20 years ago), that sooner or later the business world will be forced in self-defense to get a stable yardstick of purchasing power. This, however, is a matter for international action, and I have no desire to do more than to call the attention of your committee to its importance. The President is, I think, convinced of this.

[Written Dec. 28, 1912.]

WASHINGTON, D. C., *December 14, 1906.*

The PRESIDENT,
White House, Washington, D. C.

DEAR MR. PRESIDENT: We beg leave to report that we presented to Secretary Shaw the bill we propose for strengthening the gold reserves of the Government to balance an emergency elastic currency and find the Secretary in perfect accord with our views as to dangers threatening the future, but thoroughly grounded in the belief that nothing can be done at this session of Congress, and that nothing can be done at any session of Congress, without previous strong popular agitation possibly reenforced by disastrous financial reasons.

We beg to differ from this view and to place at your service the measure inclosed and the following reasons in support of its consideration by you.

First. This plan, being for the purpose of strengthening the head of the Executive in time of grave national peril, should be drafted and proposed by the Executive, just as he would plan any measure for national defense in time to threatened war, pestilence, or famine.

Second. There is no difference of opinion as to the existence of the peril. The whole financial world feels it. The difference is over the remedy. On the one hand there are those who say there is no cure except the destruction of prosperity, the impoverishment of labor, and the return of labor's wages to the reserve centers. On the other hand is the proposal for increased bank paper currency. Nobody, however, has publicly proposed the strengthening of the gold reserves in the hands of the Ex-

ecutive, which should precede either remedy—panic or paper. To work the cure by destroying prosperity is suicidal. More bank paper may be temporary relief, but this would force gold out of the country whenever the rates of interest were relatively higher abroad. It should, therefore, be preceded by some plan for freeing the gold reserves in the Treasury and placing them under the control of the President and the Secretary of the Treasury.

Third. The present law, authorizing bonds to issue for gold purchases, may not be available for quick action when there is an international contest, as at present, over interest rates and gold reserves.

Fourth. The present acute international situation has existed but a short time. Until recently it was supposed that gold currency would move freely and continuously between gold standard nations and that high interest rates, especially when combined with the largest merchandise exports ever recorded, could at all times draw gold from England and Europe. Our large exports, our Treasury policy of facilitating gold imports, and our high interest rates have but served to alarm Europe in a manner and to a degree unprecedented. England is no longer able to bank the world on a gold basis, and she can not now look to France, Germany, or Russia for support. Her units in financial transactions have become outclassed by America's growth. With our immigration reaching one million a year and all our people at work, we are absorbing the life labor of the world and its life-giving currency, gold. For that gold we have been issuing for some years only gold coin or gold certificates dollar for dollar.

Fifth. The United States Treasury has, therefore, to-day the only stock of gold capable of holding in balance the paper currency and the emergency currency which the world's activities demand. The failure to properly use it means ultimately a financial and industrial crisis and may mean sudden demands for its improper use. Freed and safeguarded, nearly 1,000 millions of dollars of gold in the United States Treasury may in the future become the financial wheel of the world, protecting industry and labor from the peril of panic, and going far toward making in the United States the monetary standard and center of the world.

Sixth. Emergency measures must be in few words and must be built upon what exists and lies close at hand. What lies closer at hand than the enormous stock of gold in the Treasury—a hoard such as no other nation possesses? Why waste this power when danger threatens? Why not make it the sure metallic basis of an unconquerable, emergency, and elastic circulation?

Seventh. We have engaged in the drawing of this plan the legal services of a firm of lawyers familiar with the national banking and currency laws, and we have given to it the results of our own study and practical experience of 25 years in the financial field as news gatherers and close observers of the financial conditions, being absolutely unattached to any interest, but serving all. We would be glad to assist you in any way in the preparation of such a plan, but have no selfish ends to serve, and we should prefer to keep strictly in the background, leaving the whole matter to your initiative, because upon you and you alone must fall the burden of maintaining the prosperity of the United States.

Yours, respectfully,

SERENO S. PRATT, *New York.*
CLARENCE W. BARRON, *Boston.*

[Inclosure.]

AN ACT To provide a larger central gold money reserve

SECTION 1. The Secretary of the Treasury is hereby authorized to issue at any time United States notes in excess of the amount now permitted by law in exchange for gold or gold certificates.

SEC. 2. The Secretary of the Treasury may, upon the request of the clearing house association of the national banks of any reserve city, issue United States notes in excess of the amount now permitted by law for the purpose of serving as an emergency currency. United States notes so issued shall be deposited by the Secretary of the Treasury at his discretion in such national banks and in such amounts as the clearing house association may request. Such deposits shall constitute a first lien upon the bank's assets subject to the priority of its national-bank notes and shall bear interest for any portion of the first $200,000,000 at the rate of 7.3 per cent per annum and 1 per cent additional for each successive $100,000,000 or portion thereof.

The issue of United States notes as emergency currency shall cease when the gold reserve in the United States Treasury for the redemption of United States notes and Treasury notes is reduced to 40 per cent of the total amount of such notes outstanding.

SEC. 3. Whenever the gold reserve in the Treasury of the United States for the redemption of United States notes and Treasury notes exceeds 60 per cent of the total amount of such notes outstanding, the Secretary of the Treasury, with the approval of the President, may issue United States notes in excess of the number now permitted by law for the purpose of redeeming the bonds or other indebtedness of the United States or in lieu of the issue of bonds for public works authorized by act of Congress. The issue of such notes shall cease when the gold reserve falls below 60 per cent of the total amount of Treasury notes and United States notes outstanding.

(Thereupon, at 5 o'clock p. m., the committee adjourned until Monday, September 22, 1913, at 10 o'clock a. m.)

MONDAY, SEPTEMBER 22, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.25 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Nelson, Bristow, McLean, and Weeks.

The CHAIRMAN. We have arranged to hear Mr. Samuel Untermyer, of New York, this morning. Mr. Untermyer, we will be glad to hear from you this morning.

STATEMENT OF SAMUEL UNTERMYER, OF NEW YORK CITY.

Mr. UNTERMYER. Mr. Chairman, I have been asked to present such suggestions as may occur to me with respect to this bill, and in presenting them I should like to have it clearly understood that I am an unqualified champion of the fundamental principle involved in this bill; that is, an ample currency issued directly by the Government, as a Government obligation, and under the absolute control of the Government. I take it that those are the fundamental provisions of the bill.

It seems to me that the bill is overgenerous to the banks, both in freeing them from competition and in other respects; more generous than any known system of any civilized country. That we have been overgenerous in the recognition that is now given to the banks, regardless of the advisory council, and that in so far as it frees them and protects them from competition it seems to be unadvisedly overliberal, and that it is so overliberal that it is likely to destroy the ability of the reserve banks or of the Government to regulate the discount markets of the country.

Now, if you do not mind, I will take up in order the provisions of the bill which I desire to discuss.

Senator HITCHCOCK. What is that statement you made? It was so liberal that it might destroy the ability of the Government to regulate the discount markets.

Mr. UNTERMYER. Yes; because it seems to me that the discount markets should be regulated, as they are in other countries, largely by the purchase of bills and acceptances in the open market; whereas this bill provides only for the purchase of bills—that is, domestic bills through the banks. In other words, we can not do as they do in Germany and France; go into the market and buy bills and in that way regulate the discount rate of the banks.

Senator HITCHCOCK. Well, the Government does not regulate the discount market in Europe.

Mr. UNTERMYER. It does in a way. The Bank of England, for instance, does every week state what the discount rate is; but it is after all a mere statement of what the discount rate will be. It would be of very little avail if the Bank of England were confined, as under this bill the reserve banks are confined, to discounting or buying only from a bank. The Bank of Germany, the Bank of France, and the Bank of England buy in the open market; they compete with the banks, and when they fix the discount rate they have the means of enforcing that rate in the public markets by buying paper at that rate and competing with other banks.

Senator HITCHCOCK. That has not always been so of the Bank of France?

Mr. UNTERMYER. That is so of the Bank of France; it buys in the open market; it buys through 400 or 500 subagents scattered all through the country; every agent buys paper there. They buy paper in small amounts; they deal directly with the smallest tradesmen of the country. And the same thing is done in Germany.

Senator HITCHCOCK. But, of course, that is a very small percentage of their business?

Mr. UNTERMYER. No; on the contrary, in France, the statistics show that it is 55 per cent of their business.

Senator SHAFROTH. Mr. Untermyer, right there, is not the Bank of England—instead of buying paper, does it not sell paper?

Mr. UNTERMYER. No; it does both.

Senator SHAFROTH. It does both?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. But, in order to raise the rate, they do not buy paper, do they?

Mr. UNTERMYER. Well, that would raise the rate. Naturally, if they make a market for paper by buying it that would raise the rate.

Senator SHAFROTH. But, when they buy the paper, that puts out that much more currency, and consequently makes competition sharper, which would lower the rates upon the other banks?

Mr. UNTERMYER. Yes; when the other banks do not want to take any paper, the Bank of England, by going into the market and taking paper, in a sense, raises the rate by creating a market for paper, when otherwise there would be no market.

Senator HITCHCOCK. But does not that reduce the rate when they go and buy the paper?

Mr. UNTERMYER. It would not necessarily do so. The more market you create for a product the more customers you get for a given article the better the rate is likely to be sustained than if there was no business.

Senator HITCHCOCK. If the Bank of England goes into the market and buys paper, that makes it easier for those who are selling the paper——

Mr. UNTERMYER. I mean by increasing the market it does reduce the rate.

Senator HITCHCOCK. It does reduce the rate, and when they want to raise the market they go and sell bonds, they sell consuls.

Mr. UNTERMYER. Not necessarily.

Senator HITCHCOCK. That is what I understand.

Mr. UNTERMYER. If they keep out of the market they raise the rate; or, if they want to keep up the rate, they say, "We will charge so much discount for paper," and everyone knows that he can not secure money for a less rate; and that has the effect of raising the rate. There are two general classes of middle men who deal in paper in London. There are recognized discount houses, great corporations like the Midland County and City of London Bank, of which Sir Edward Holden is at the head, and the Discount Bank of London, of which Mr. Nugent is the head. They have very large capital and they buy this class of paper themselves, knowing that they can rediscount it any time they want to, and that they can make money by the difference between the open rate in the markets and the bank rate.

Then there is another class of men who control the great banking houses of England. They are, some of them, discount houses, and some of them acceptance houses. A merchant who is not well known or whose acceptances are not salable on his own credit, goes to one of these banking houses and says, "I want a line of credit for my mercantile transactions of £100,000." The banking house being satisfied with the responsibility of the man, will, for a commission, accept bills that he draws on them, and those acceptances pass current and are rediscounted by the Bank of England and, in like manner, by the banks of France and Germany.

It is that system of discount and acceptances that makes it possible for England to do so much of its business on a credit basis, and require so little actual money.

Senator HITCHCOCK. Now, Mr. Untermyer, do the banks of deposit in England, like the Midland County and City of London Bank, which receive deposits from the public, give acceptances?

Mr. UNTERMYER. Yes; some of them are acceptance houses also.

Senator HITCHCOCK. But I understand that in the main——

Mr. UNTERMYER (interposing). In the main, the private bankers do a large part of the acceptance business.

Senator HITCHCOCK. Well, this bill provides that these banks, which are banks of deposit here in the United States, shall give acceptances to the extent of 50 per cent of their capital?

Mr. UNTERMYER. Yes; but only for foreign business.

Senator HITCHCOCK. Yes; I believe there is a limitation in the bill.

Mr. UNTERMYER. Yes; a limitation which is absolutely wrong and unjust to our domestic merchants, because it makes money cheaper to the foreigner than to the home merchant. If all the banks can lend their credit for foreign business, but not for home transactions, this country is made a great market for credit on foreign transactions, and excluded as a market on domestic transactions.

It seems to me that the manifest and the surest result of that policy is to aid the foreign merchant in competing with our home merchant. If the foreigner can get money cheaper than the home merchant in the form of acceptances, he is given an advantage.

Senator HITCHCOCK. It would only be the larger banks in the foreign business that would lend credit.

Mr. UNTERMYER. Not in that way. Under this bill, any national bank can lend its credit in the form of acceptances for transactions based on the importation or exportation of goods, to the extent of 50 per cent of its capital.

Senator HITCHCOCK. If it was for the exportation of goods, there would be no need for doing so. It is only for the importation.

Mr. UNTERMYER. I said based on the exportation of goods. That means that if a merchant in this country is selling to a merchant in Germany, the merchant in Germany is the one who must give the paper.

Senator HITCHCOCK. Yes.

Mr. UNTERMYER. And he can hire a New York bank to give acceptances.

Senator REED. Senator Hitchcock's question interested me, and I think it would be quite a question as to whether this, in its practical working in this country, would give to the large bankers this particular line of business and the small banker be excluded, not under the terms of the bill, but under its practical operation.

Mr. UNTERMYER. I think in its present form it would, if you are going to limit the acceptances to those based on the importation or exportation of goods. The amount of acceptances that a bank may make is unlimited in some of the other countries. The Canadian banking system has no limit in the amount of its discounting operations.

Senator HITCHCOCK. Is it not true that it is considered bad banking for a bank of deposit to give acceptances, because it has so many demand liabilities in the shape of deposits that it is considered bad banking for it to give acceptances which may come in at any time, virtually indorsing notes for others.

Mr. UNTERMYER. That has not been the result of experience in other countries, so far as I know. One would suppose that there might be some criticism made of the banks in that respect; but that apparently adjusts itself. Those who buy these acceptances get such an intimate knowledge of the extent to which a bank will lend its credit that acceptances are not given to an extent that will affect the bank's credit. That thing has always adjusted itself.

So, with the foreign banking houses. Anyone familiar with the business of the country can sit down and write out the names of the banking houses whose acceptances pass current, because it is known that they are conservative in their business dealings. The people who buy these bills are so expert that they can tell a good commercial bill from an irregular bill almost instinctively. It is amazing to see how they can pick out of their portfolio, their mass of acceptances, and tell you all about each one of them.

Senator WEEKS. Let me ask you one question, Mr. Untermyer, at this point: Are you going to advocate that the reserve banks go into the market and purchase bills and conduct a business in competition with other banks?

Mr. UNTERMYER. I do not think that would be quite fair to the banks, except where it is necessary to regulate the discount rate, if the banks are going to come into and become an integral part of this system. But if the banks are not going to come into this system, you can build up, it seems to me, quite as good a system and perhaps a stronger one in competition with the banks.

Senator WEEKS. Is that not exactly what destroyed the First and Second United States Banks?

Mr. UNTERMYER. Well, that is a long story, is it not?

Senator WEEKS. Yes.

Mr. UNTERMYER. And there are varying points of view as to what did destroy them.

Senator WEEKS. It was my recollection that that was the fundamental reason—that and politics.

Mr. UNTERMYER. Yes.

Senator WEEKS. Those were the two fundamentals that destroyed the First and Second United States Banks, and I was wondering if you were going to advocate repeating that experience.

Mr. UNTERMYER. Every other country in the civilized world which has a banking system and a central bank does buy these bills in that way.

Senator WEEKS. Yes; in both ways, that is true.

Mr. UNTERMYER. They buy mainly in the open market in competition with the banks; and not alone that, but they take deposits in competition with the banks. The Reichsbank has 70,000 deposit accounts. The Bank of France, with all its vast deposits, has only a small number of banks as depositors.

Senator WEEKS. Yes.

Mr. UNTERMYER. It does its main business directly with the business and farming community in general; almost everybody in business has a deposit in these Government banks. What we are doing here by this bill is to protect these banks against competition. We are allowing them to make an intermediate profit on every piece of business they do with the Government; and we are confining ourselves to doing business through them. My contention is that that is a very generous arrangement. Judged by the experience of other countries, it is so generous that one is disposed to marvel at the objections that the banks suggest to this bill.

Senator WEEKS. It really is not a question of generosity that we have to deal with; it is a question of public policy and of what will bring about the best results for the business interests of the country—and I did not intend to disturb your argument——

Mr. UNTERMYER. Yes.

Senator WEEKS. But I wondered if you were going to discuss that point.

Mr. UNTERMYER. Yes.

Senator WEEKS. And if you were going to take that position.

Mr. UNTERMYER. I am, and I would like to say it does not in the least interfere with my discussion to be interrupted. I think the colloquial form of discussion is the only useful form, and I shall be glad to be interrupted at any time and as often as you please by questions from members of the committee.

Senator HITCHCOCK. Mr. Untermyer, you speak of this being liberal to the banks because it does not raise up a competitor against them. But as a matter of fact the banks are to own absolutely these 12 regional banks, which is an entirely different proposition from anything existing anywhere in Europe.

Mr. UNTERMYER. Entirely different.

Senator HITCHCOCK. So that we are really creating a monopoly, as I understand it, in this country. We are binding our whole banking system into one and allowing the banks to combine what is kept separate in Europe?

Mr. UNTERMYER. I think you are dissipating a monopoly by this measure. I think you have something now which is very nearly

approaching a monopoly of great credit, and that you are doing the most effective thing that can be conceived of to get rid of it.

Senator HITCHCOCK. Would not the situation that we are proposing to create be parallel to the situation which would exist if the banks of France owned the Bank of France, instead of having the ownership diffused among a large number of stockholders?

Mr. UNTERMYER. I do not think it would make any difference if the small banks of France owned the Bank of France so long as the Government controlled the bank as it does now by the naming of its governors and its vice governors and agents.

Senator HITCHCOCK. The Government does not name its directors. They are named by the stockholders.

Mr. UNTERMYER. But the Government names the governor, the head of the bank, and it names the assistant governor.

Senator HITCHCOCK. But it does not name the directors, and the directors name the rate of interest.

Mr. UNTERMYER. And there is not a banker on the board of directors.

Senator HITCHCOCK. As I understand it, the governors run the bank, but the directors fix the rate of interest.

Mr. UNTERMYER. My understanding (and I had a long talk with the governor of the Bank of France this summer on the subject, and also with the head of the Credit Lyonnaise) is that in practical effect that the Government runs that bank just as the Government runs the Reichsbank. It is a very flimsy cover, this private stock ownership, because the private stock owners have little or no real voice in the detail business management of the bank. In the first place, owners of large blocks of stock have no voice in the management at all commensurate with their interest. A man who owns over 500 shares of stock has no vote on his excess holdings, as I remember the situation at the moment. A stockholder has one vote up to 50 shares that he owns and two votes up to 100 or 200 shares, and he gets an aggregate of four votes on an ownership of 500 shares, and after that he gets no votes no matter how much stock he owns.

And then when you look at the personnel of the board of directors, we will say, of the Bank of France or of the Bank of England, you will see that they do thoroughly represent the commercial community in the best and most useful sense and that their presence on the board is of great value because of their knowledge of persons and conditions in their locality and their consequent ability to pass on paper.

Senator HITCHCOCK. You do not hold that the Bank of England is controlled by the Government in any sense, do you?

Mr. UNTERMYER. Which department—the issue department?

Senator HITCHCOCK. Either one. It is not even inspected.

Mr. UNTERMYER. Oh, I know it is not.

Senator HITCHCOCK. There is no reserve required.

Mr. UNTERMYER. But it is very subservient to Government influence.

Senator WEEKS. Well, are not all banks everywhere subservient to Government influence?

Mr. UNTERMYER. No; I would not like to say that they are. Only in so far as the Government has the power to inspect them and to control their operations. I think that if the banks of this country,

the great banks, were more susceptible to Government influence and to public sentiment it would be better for them and for all of us.

Senator WEEKS. Well, we are not discussing the public sentiment phase of it. It has always seemed to me that banks everywhere were extremely anxious to cooperate with the Government.

Senator POMERENE. If the newspapers correctly reported the proceedings of the American Bankers Association it was only a few weeks ago that they wanted to have the right to veto anything that the board might do.

The CHAIRMAN. It would be more accurate to say, in some cases, that they are extremely anxious to have the Government cooperate with them.

Senator SHAFROTH. The name of the Government is a great thing to have back of them in their banking business in any way.

Senator WEEKS. That is true. But I think if you look into the inside workings of the banks generally in the United States in the last 50 years you will find that the banks have been anxious to cooperate with the Government whenever there was necessity for cooperation.

Mr. UNTERMYER. I think that in times of emergency they have shown public spirit, as you will find public spirit in any other class of the community. I think as a class they are just as patriotic and public spirited—no more and no less so—as any other part of the community.

Senator WEEKS. That is just my opinion exactly.

The CHAIRMAN. I think everybody agrees with that.

Senator REED. Well, taking that view of it, and admitting that most American citizens are willing to go out and shoulder a gun and go to war and die for their country, have you not observed a disposition of gentlemen dealing with the Government to always want to "skin" the Government? The same patriot who takes his gun and goes to war will reach his hand into the Treasury as deeply as he can and escape at the same time the penalties of the law?

Mr. UNTERMYER. That is what I meant when I said that they were just as patriotic and no more and no less than the general run of citizens.

Senator REED. I do not mean to say that the bankers do that any more than any other people. But when you come to financial transactions most gentlemen, whether they are in the banking business, or are farmers, or working men, like to get about all they can out of the Government; and I have never seen any class of citizens yet actual guardians ad litem for the Government in dealing with it. They generally want to get a good contract if they can get it.

Senator HITCHCOCK. Do you think, Mr. Untermyer, that the Government should control the rate of discount?

Mr. UNTERMYER. Do you mean this Federal board?

Senator HITCHCOCK. You made the statement in your opening remarks that the terms of this bill tend to limit the ability of the Government to regulate the discount market of the country. So I ask you whether you think the Government should control the rate of discount?

Mr. UNTERMYER. In a qualified way, in connection with the issue of currency, yes. That is to say, that when the Government is issuing currency for the relief of the community to carry on the business of the country, I think it is only just that it should see to it that people

who are getting the benefit of that relief are not required to pay exorbitant rates to the banks who act as mere middlemen between the Government and the borrowers.

Senator HITCHCOCK. That is the only motive then—to protect the borrowers?

Mr. UNTERMYER. To protect the borrowers in connection with the relief you are furnishing the borrowers. It is hardly just for the Government to say, on the one hand, to the national banks, "We will help you relieve the financial stringency," and, on the other hand, permit them to exact just as much as they please from the borrower in granting that relief with Government funds.

Senator HITCHCOCK. Yes. Now, I want to suppose a case to you and see whether you think this would be desirable. Under the terms of this bill the board of control has the right to fix the rate of interest at which currency shall be advanced to the reserve banks.

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. Suppose an administration was drawing to its close. Seven men, chosen by the President, compose the board of control. They are the creatures of the President. He is a candidate for reelection. The question before the people is whether the administration has brought prosperity to the country. Do you think there would be any danger that those seven men might make such easy money for the country as to start the wheels of industry and create a boom by advancing currency to the reserve banks at one-half of 1 per cent, so that they might, in turn, let it out liberally to the individual banks, and the individual banks having a redundant currency would let it out liberally to their customers on loans that might not ordinarily be desired, and the country would have a period of inflation of credit?

Mr. UNTERMYER. My answer to that would be that one can, of course, with the aid of a vivid imagination, conceive almost any given state of things, but that I do not believe it is within the range of possibility.

I am not in sympathy with this talk about political boards. I believe that we should get as able, useful, and public-spirited a body of governors for this Federal reserve board as could be selected from the ranks of any country, or as could be selected by the bankers themselves—and perhaps a better board than could be selected by the bankers. I have no fear of the political control aspect.

Senator HITCHCOCK. Well, do you think——

The CHAIRMAN (interposing). You have not let him finish his answer, Senator Hitchcock.

Mr. UNTERMYER. Yes, if I may go on. I think, Senator Hitchcock, that the brakes that are put upon the issue of currency here are sufficient to keep it within bounds. In the first place, the Federal reserve bank can not disburse any more currency than that which will keep up its gold ratio, to start with——

Senator HITCHCOCK (interposing). Well, that is very small.

Mr. UNTERMYER. That is as much as necessary.

Senator HITCHCOCK. No; it is smaller than any country in Europe.

Mr. UNTERMYER. That is a question of the way you figure it.

Senator HITCHCOCK. Can you name a single bank of Europe that keeps as low a reserve as 33⅓ per cent? That is under——

The CHAIRMAN. There is Belgium.

Mr. UNTERMYER. If we carry out the recommendations of the bill which Senator Owen has introduced with respect to the gold certificates that are outstanding, it will be very much easier for us to get as large a gold reserve as is required. Thirty-three and one-third per cent has always been regarded as safe. I do not think——

Senator HITCHCOCK. The Bank of England has 50 per cent. The Bank of France has 85 per cent. Germany has about 60 per cent—between 50 and 60 per cent.

Mr. UNTERMYER. It has 60 per cent now, but it did not have it six months ago.

Senator SHAFROTH. There is no limitation upon it. They could run it down lower if they wanted to. They can run it up to 50 or 60 per cent.

Mr. UNTERMYER. They have had it as low as 20 per cent in Germany and their currency and credit have not suffered in consequence. I discussed that question very fully with one of the chiefs of the Reichsbank a few weeks ago. It is a question of confidence in the ability of the country to redeem its promise to pay in gold rather than a question of the precise proportion actually in hand.

Senator HITCHCOCK. Can you recall my original question now?

The CHAIRMAN. You have not permitted him to answer you question.

Senator HITCHCOCK. No. I will get you to indicate whether, with your vivid oriental imagination, you can conceive of a condition such as I have suggested relating to the board of control producing, in a sense, a condition of prosperity?

Mr. UNTERMYER. Yes; by assuming at the outset that these men upon the board of control are going to be recreant to their trust and are going to deliberately bring on a cataclysm in the affairs of the country.

Senator HITCHCOCK. No; I am not picturing a cataclysm at all. I am picturing a condition of prosperity.

Mr. UNTERMYER. No; that is not a condition of prosperity.

Senator HITCHCOCK. Well, I will say of activity.

Mr. UNTERMYER. You are assuming that they will let out money for practically nothing except for the purpose of unduly stimulating enterprise and creating an unhealthy inflation and an undue credit in the business world. I think you have presented a set of premises that are almost inconceivable.

Senator HITCHCOCK. Well, it is possible under the law for them to let out currency for one-half of 1 per cent, which is practically a nominal rate.

Mr. UNTERMYER. Yes; it is possible.

Senator HITCHCOCK. And it is possible, on the other hand, for them to charge 5 per cent.

Mr. UNTERMYER. But that always assumes that they are going to act contrary to the needs of the country and contrary to sound business and to their consciences.

Senator HITCHCOCK. But suppose they think that the needs of the country are the reelection of the President who appointed them?

Mr. UNTERMYER. That belief would not be consistent with their sworn duty under the bill. The needs which will govern them in their action under the bill are the financial needs of the country—and

the law under which they are acting; and I can not conceive that they will lose sight of that fact. No other assumption is permissible.

Senator POMERENE. It would be just as fair to assume that the Supreme Court of the United States would be recreant to its trust as to propose that the members of this Federal reserve board would.

Senator HITCHCOCK. Well, is it not a fact that nearly every Cabinet officer, when the time comes for the President to be reelected, goes out to assist in his reelection?

Mr. UNTERMYER. It is perfectly consistent for them to defend their policies, and the country is entitled to have them do so, and is benefited by such a custom. It is a pity they are not given seats in Congress and required to answer every day for their official acts; but if, instead of going out, they should sit in their private chambers and deliberately violate their official oaths, that would be an analogous case to the one you are assuming.

Senator HITCHCOCK. I am not assuming the case——

Mr. UNTERMYER (interposing). Oh, but those are your premises.

Senator HITCHCOCK. The law gives them the right to let out currency at as low a rate as one-half of 1 per cent.

Mr. UNTERMYER. But the law assumes that they are going to exercise a judicial discretion.

Senator HITCHCOCK. And you do not conceive that it will be possible for them to let out currency as low as one-half of 1 per cent legitimately?

Mr. UNTERMYER. No.

Senator HITCHCOCK. I think it is entirely too cheap. But the bill provides for it.

Mr. UNTERMYER. Yes. But when money is as cheap as that it is not needed. There is a surplus of it.

Senator HITCHCOCK. You would not say that that is an objection to the bill?

Mr. UNTERMYER. I should say that the rate is too low.

Senator HITCHCOCK. I should think so.

Senator BRISTOW. Mr. Untermyer, you made one suggestion that interested me. You said that if the banks will not come in under the bill, why we would do so-and-so with these banks. What do you mean by that?

Mr. UNTERMYER. I mean, in the first place, that the attractions of this bill to the banks are so great that it does not seem conceivable that they can stay out, either national banks or State banks; and, secondly, that if, for the purpose of getting better terms, they should decline to come in, there is a system which seems to me quite as sound, quite as feasible, and perhaps as much in the public interest as the one outlined in this bill, if not more so. Now, I believe the banks will come in. I do not believe any State bank or national bank can live outside of this system with all its attractions.

In the first place, the 10 per cent which the country bank pays in, and about which there has been so much protest, it can get back——

Senator BRISTOW (interposing). It borrows it back. Why should a country bank be compelled to put in 20 per cent instead of 10 per cent of its money, and then borrow it back as a favor?

Mr. UNTERMYER. Let us see if it is a favor. I think it is a money-making arrangement for the bank. It buys this stock, in the reserve bank, and then if there is an equitable arrangement of rediscounts, it

gets it back in the form of a loan; and certainly it will not have to pay 5 or 6 per cent; while it will be getting 5 or 6 per cent on the stock it subscribes for. Suppose it pays 2 or 3 per cent to borrow back the money; it is making the difference between that 2 or 3 per cent and the 5 per cent dividend which it is getting as a dividend on its stock.

So, I think there is a good deal of humbug about this talk of the hardship on country banks under the bill.

Senator BRISTOW. Then, do you think that these country banks do not know what they are talking about?

Mr. UNTERMYER. I did not say that.

Senator BRISTOW. But you seem to think there is a good deal of humbug on their part?

Mr. UNTERMYER. I have not quite been able to believe, when they look at all the attractiveness to them under the bill, that the outcry is made by the country bankers.

The CHAIRMAN. The outcry of the country banks comes from the gentlemen who hold the country bank deposits.

Senator BRISTOW. I challenge that statement as being a fact. It comes from the men who do not want to dissipate the resources of the community and send them to a foreign city, and then have to borrow it back as a matter of favor. Do you think that these country bankers are a lot of chumps that are willing to be managed by men in New York and Chicago?

The CHAIRMAN. I think the argument as to the hardship on country banks comes mainly from the banks which have these country banks' deposits.

Senator BRISTOW. I think there is a doubt about that, and it is not true in any sense——

The CHAIRMAN (interposing). I think some of the country banks have put up the argument——

Mr. UNTERMYER. Let us look at the figures. It has seemed to me, from the point of view of the logic of the situation, as though it were very strange that the country bankers should object to this feature: First, because, as I say, they get their distributive part of the money back by way of loan, and they make money by the operation. Second, it is preeminently to their interests to strengthen their reserve bank as much as they can and with a 10 per cent subscription to the stock, it will cost them nothing, and they can make something. A 5 per cent subscription makes a comparatively weak bank. The next privilege the country banker gets is with regard to the use of its reserves——

Senator WEEKS (interposing). Would a 5 per cent subscription make a weak bank, if the number of banks were reduced?

Mr. UNTERMYER. I am assuming, Senator Weeks, that the subscription will not stand in the way of any bank going into this system. That is, that they will recognize that they will get back that money by borrowing it back and making money from the operation.

Aside from that, you take the reserves now that they are required to put into a city reserve bank, or a central reserve bank. They would get back the use of two-thirds of those reserves of which they do not now get the use. But, under this arrangement, they are going to get back two-thirds of those reserves, and they are going to be able to use their capital and their deposits and resources over and over again.

A bank should, if properly conducted, be as well off as if it had twice the capital it has under the present system.

On the question of where it is possible that the opposition to this measure may originate. There are 10 banks in New York——

The CHAIRMAN (interposing). In New York City?

Mr. UNTERMYER. In New York City all practically under the domination of one little set of men that have 15,483 deposits of the out-of-town banks of the country. They have 60 per cent of all the deposits of all State and National banks of the country. Here is a list of them, with the number of bank depositors.

The CHAIRMAN. Will you give that to the stenographer, so that it may go into the record?

Mr. UNTERMYER. Yes. The Bankers' Trust Co. has 237 of these out-of-town bank depositors. It is governed under a voting trust, of which Messrs. Morgan and Baker, or their firms, constitute the voting trustees. They control the election of directors of that bank through a voting trust. The National Bank of Commerce has 1,671 bank depositors. That is largely controlled by the Morgan and Baker people.

(The list referred to follows:)

Out-of-town bank depositors.

Bankers Trust Co	237
National Bank of Commerce	1,671
Chase National Bank	3,103
First National Bank	579
Guaranty Trust Co	182
Hanover National Bank	4,074
Liberty National Bank	312
Mechanics & Metals National Bank	1,010
National City Bank	1,889
National Park Bank	2,426
Total	15,483

Senator WEEKS. The Bank of Commerce?

Mr. UNTERMYER. The National Bank of Commerce in New York.

Senator WEEKS. How much stock do J. P. Morgan & Co. own in that bank?

Mr. UNTERMYER. I think I can give you the exact amount from the report of the Pujo committee.

Senator WEEKS. The capital is $25,000,000, is it not?

Mr. UNTERMYER. Yes. You know they bought in very largely lately, within a few years.

Senator WEEKS. I do not know anything about it.

Mr. UNTERMYER. When the Mutual Life and the Equitable Life sold their Bank of Commerce stock, they sold one-half of their holdings in that bank, and that was bought by a group that was gotten together by these gentlemen. You may remember that in 1906 the Legislature of New York passed a new insurance law requiring the insurance companies to dispose of their bank and other stocks; and under that arrangement they disposed of half of the stock they held in the Bank of Commerce. Those two companies had practically controlled that bank.

Senator WEEKS. How much stock do Morgan & Co. control in the Bank of Commerce?

Mr. UNTERMYER. I will have to look that up for you; it is quite considerable.

Senator WEEKS. You stated that Messrs. Morgan and Baker controlled the $25,000,000?

Mr. UNTERMYER. If you will let me look at that during recess, I will give you the exact figures. I did not say they owned the control.

Senator WEEKS. You said they controlled it.

Mr. UNTERMYER. I said they controlled it, and I will show you that by the list of their board of directors.

Senator WEEKS. You mean that they control the policy of the bank, but do not control the stock?

Mr. UNTERMYER. I do not mean that they own one-half of $25,000,000 of that stock any more than I mean that the men who control a railroad to-day own a majority of the capital stock of that railroad. They control a railroad by the ownership of 2 or 3 per cent of the stock sometimes.

Senator WEEKS. They control it because the stockholders wish them to control it.

Mr. UNTERMYER. But the control of the capital of the Bank of Commerce, as evidenced by the constitution of its board of directors and in many other ways, is under these gentlemen. That subject has been fully exploited, and I do not care to inject it here.

Senator WEEKS. That is to say, the stockholders think that these gentlemen are fit people to manage the bank?

Mr. UNTERMYER. Well, I do not think that is quite a fair way of putting it, Senator Weeks.

Senator WEEKS. I think that is absolutely fair, Mr. Untermyer.

Mr. UNTERMYER. I do not think so. I think that when we know how impossible it has been in the history of this country to change the control of any corporation because of the inertia of stockholders. I do not think it is fair to say that a bank or a railroad is controlled by a few men because most of the people of the country—most of the stockholders—think that they are the best people to control it. I do not think that is true of the New Haven road to-day; but you have heard of no movement to take the control of the New Haven road away from the men who now control it.

Senator WEEKS. But the inertia of the stockholders simply means that the stockholders are satisfied.

Mr. UNTERMYER. No; it means that there is no known way by which the stockholders can assert themselves as they do in other countries. They simply do not do it.

Senator WEEKS. You know that that is not so.

Mr. UNTERMYER. I know that the stockholders do not assert themselves in this country. They submit to all sorts of abuses and mismanagement and often worse, rather than get together and make a change in the control.

Senator WEEKS. They do when they are satisfied.

Mr. UNTERMYER. Then you must not forget this: What may be good for the stockholders of a bank is not always good for the public that is dealing with the bank. For instance, it may be a very good thing for the stockholders of the Bank of Commerce that these gentlemen control that bank. It is a good thing for them. They make a great deal of money through the control by these gentlemen that they could not otherwise make, because these interests control

the accounts and other patronage of railroads and great industrial companies; and their ability to throw business to these banks and to make them great is in itself a sufficient incentive to stockholders to leave the control with them.

Senator WEEKS. Then we will admit that the stockholders of the Bank of Commerce are satisfied with Morgan & Co., and Mr. Baker and others controlling the bank because they make the bank successful.

Mr. UNTERMYER. Yes; I think they——

Senator WEEKS (interposing). Then, as far as the stockholder is concerned, they control the bank because the stockholders want them to do so.

Mr. UNTERMYER. It is not material to our present discussion and so if you care to have such an admission for the purpose of discussion, we will assume it for that purpose.

Senator WEEKS. I do not want any admission. I simply want to get at the facts.

Mr. UNTERMYER. We none of us know the facts as to what are the wishes of the stockholders.

Senator SHAFROTH. Mr. Untermyer, before you leave the question as to the amount which is to be kept in its vault by the country bank, I have made a little calculation, and I want you to tell me whether I am wrong or right. Let us suppose a country bank with $100,000 capital?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And that it has $1,000,000 of deposits?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And under the present law it has got to keep 6 per cent of that in its own vault?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And 9 per cent in other banks?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. Now, this bill changes the amount of the reserves that are required from 15 to 12 per cent?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And requires it to keep in its vault 5 per cent, and in other banks 5 per cent, with a leeway as to the remaining 2 per cent. Now, on one $100,000, the 10 per cent that would have to be paid to the capital of the reserve bank under this bill would be $10,000, and the 5 per cent which it would deposit with the reserve bank would be 5 per cent of $1,000,000, which would be $50,000, or which added together makes $60,000. That is the amount which the country bank with a capital of $100,000 and $1,000,000 of deposits has to put up and part with?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And it must part now with 9 per cent of $1,000,000 which would be $90,000. Is not the country banker better off by $30,000 under this now policy than under the law as it exists to-day?

Mr. UNTERMYER. I think he is better off by a great deal more than that difference because——

Senator SHAFROTH (interposing). Well, is he not better off at least to that extent?

Mr. UNTERMYER. Certainly.

Senator SHAFROTH. Now, then, what other advantages would he have under the bill?

Mr. UNTERMYER. If he is equitably dealt with and he is dealing in commercial paper, he can borrow back the $10,000 of capital that he invests——

Senator SHAFROTH. Yes.

Mr. UNTERMYER. In the stock, because there is no reserve required of the reserve bank except as against its demand liabilities. Then, if he is fairly dealt with, he ought also to be able to borrow back two-thirds of the $50,000. That is $33,000, and the $10,000 makes $43,000, in addition to the advantages of which you speak.

Senator SHAFROTH. Now, does not the reduction of the amount required to be placed in the reserve banks as part of the reserves of these various banks, whether city banks or country banks, inure to their advantage to the extent of probably 5 per cent on their deposits?

Mr. UNTERMYER. I have not figured that.

Senator SHAFROTH. Well, you take a city bank——

Mr. UNTERMYER. Yes.

Senator SHAFROTH. It is required now to keep in cash in its own vaults 25 per cent?

Mr. UNTERMYER. Yes.

Senator WEEKS. That is a central reserve city?

Mr. UNTERMYER. Yes; a central reserve city.

Senator SHAFROTH. A central reserve city. Now, that 25 per cent in its own vault is locked up so that it can not use it. Now it is required to put in—it reduces it to 18 per cent.

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And 9 per cent in its own vaults, and 9 per cent in the central reserve, or the reserve banks. That difference between 25 and 18 per cent, calculated on its enormous deposits, will make a greater difference than the difference of requiring the full 25 per cent to be kept in its vaults?

Mr. UNTERMYER. Certainly; I have always argued that the purpose should be to reduce the reserves, as far as it was safe to do so.

Senator SHAFROTH. And that inures to the financial benefit of the banks?

Mr. UNTERMYER. It appears so.

Senator BRISTOW. So far as the country bank is concerned—I am not considering this from the standpoint of the central reserve city bank—the reduction from 6 to 5 per cent is of no consequence whatever to the country banks, because they have to carry more than 6 per cent anyhow in their business, and they always do carry more than 6 per cent, unless they are in a failing condition.

Senator SHAFROTH. The point I am referring to is the amount they have to put in other banks being reduced from 9 to 5 per cent.

Senator BRISTOW. They will carry more than 5 per cent anyway, because it is necessary for them to do it. And as to the reduction in the amount required to be carried in their own vaults, that is not of advantage to them, because they have to carry more anyhow and always do carry more.

Senator SHAFROTH. Well, why are they protesting, then, and trying to get the reserves to be deposited in the country banks still lower?

The country banks are trying to do that now. If it is of no benefit to them to have it lower, why should they do that?

Senator BRISTOW. I do not know what protests are being made. But you know you can examine any country bank in your State; and it carries more money than it is legally compelled to carry. It has to, in its business.

Senator SHAFROTH. It is carried very largely because it can not go to one of these central reserve banks and discount its paper and cash practically every obligation that it has outstanding, under the present law.

Mr. UNTERMYER. That is the reason they do not carry any reserves in the European banks, because of these central reservoirs. They know they can get all the money they want.

Senator BRISTOW. I am not objecting to these central reservoirs, if you put it in the control of the banks themselves. You started out to say that 10 men have control over I do not know how many banks.

Mr. UNTERMYER. 15,483.

Senator BRISTOW. Well, 15,483 banks——

Mr. UNTERMYER. I did not say 10 men control these banks. I say that those 15,483 banks are depositors with those 10 institutions.

Senator BRISTOW. But it has been asserted by the chairman and yourself that these influences that center in New York are controlling these country banks and causing them to protest here to us against this legislation?

Mr. UNTERMYER. If anything I said conveyed the impression that I believed that, because these 15,483 country banks had deposits in the New York banks, the New York banks controlled those country banks, I want to disabuse your mind of it, because that would be perfectly absurd.

The CHAIRMAN. I said nothing that justified that conclusion.

Senator BRISTOW. I certainly so understood the chairman. I think the record will show that the chairman said that this protest came from this central source.

The CHAIRMAN. Let the record speak for itself.

Senator WEEKS. What the chairman intimated, and what Mr. Untermyer more remotely intimated, and what you read every day in the press, is that there are certain great money devils who are controlling this suggestion, and that they are influencing the country banks to protest against this bill in the hope of getting better terms.

Mr. UNTERMYER. Now, on that subject, if I may be permitted, I will say this: What I meant to say is that these New York City banks, 30 of which have 19,015 of these banks' deposits, that it is not to their interest to lose these deposits if they can keep them. Under the present system they have those depositors and they want to keep as much of this money as possible.

Senator HITCHCOCK. How many country depositors, 19,000?

Mr. UNTERMYER. There are 30 banks in New York City, out of 111 banks and trust companies there, which together have the deposits of 19,015 banks throughout the country. Now, of those 30 banks, 10 banks which I have referred to, and which I am about to name and which will go into the record, have 15,483 of those deposits.

Senator WEEKS. You know that those deposits are not an unmixed blessing, do you not?

Mr. UNTERMYER. They seem to be pretty lucrative business. The banks do not seem anxious to let them go. Let me show you, in that connection, how much of that money is used in Wall Street.

Senator HITCHCOCK. Before you pass to that will you not allow me to bring up the question of the country banker from the standpoint of the country bank? I have got a letter here which I received from a country banker yesterday, which is right in point, I think, and I will lead up to that by one or two questions. Mr. Untermyer, you say there are 30 banks in New York City having deposits from 19,015 banks throughout the country?

Mr. UNTERMYER. Yes; there may be a few hundred duplications in that where a bank has a number of bank correspondents.

Senator HITCHCOCK. Every one of those 19,000 country banks in selecting the New York depository has the choice of at least 30 banks?

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. Suppose this bill passed, how much of a choice would those country banks have?

Mr. UNTERMYER. The money does not go back to the banks then; it goes to the reserve bank.

Senator HITCHCOCK. They would be required to put it in the reserves of New York City, would they not?

Mr. UNTERMYER. But they would get two-thirds back instead of none.

Senator HITCHCOCK. I am asking you where they will be required to put it? They would be required to put it there. Suppose that reserve bank refuses to rediscount their paper?

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. Where would the country bank be?

Mr. UNTERMYER. Do you mean, unjustly refused?

Senator HITCHCOCK. Suppose it refused, regardless of any reason, what would the country bank do?

Mr. UNTERMYER. Do you mean as to borrowing?

Senator HITCHCOCK. Yes.

Mr. UNTERMYER. I do not know. I suppose it would do what it would do now if its correspondent in New York refused to discount.

Senator HITCHCOCK. Now, if the National Bank of Commerce refused to discount the paper of the country bank, it can go to the First National Bank, or any other national bank that is a reserve agent in New York City, where it may keep its reserves?

Mr. UNTERMYER. In theory it might do so, but in practice I do not think—if one of the New York banks refused, I do not think you would find any other bank would take up the business.

Senator HITCHCOCK. I think the fact is that the country banks are changing their accounts all the time, shifting accounts. And, moreover, if it failed to get its credit and proper treatment from the reserve agent in New York City, it might take the reserve agent in Philadelphia, or St. Louis, or Boston, or Chicago, or Omaha, or St. Paul.

Mr. UNTERMYER. Yes; but, Senator Hitchcock, these banks will all have accounts with other banks anyway to do their regular business.

Senator HITCHCOCK. Then, under the terms of the bill, they are not permitted to do so after three years?

Mr. UNTERMYER. Yes; they are, except as to their reserves. You do not suppose that they will not have accounts in New York? They will have.

Senator HITCHCOCK. They will have accounts in New York only by increasing the balance that they carry over the requirements of the bill.

Mr. UNTERMYER. Which they are doing all the time.

Senator HITCHCOCK. And the bill has placed the reserve requirement low for the purpose of giving them a capital to operate on.

Mr. UNTERMYER. Let me illustrate. On the 1st of November, 1912, in the height of this last panic, the country banks had in 30 of the New York City banks $240,000,000, which the city banks were lending for them on the New York Stock Exchange, over and above the reserves of those banks—money that they had sent to New York to be loaned on the stock exchange by those 30 banks, in their own names; and of that amount 10 banks, to which I have referred, had $172,193,000 on that day belonging to their country correspondents loaned on the stock exchange, of moneys that did not form part of the reserves. This was independently of moneys that formed a part of the deposits of these country banks with the New York City banks; it was just money sent right on to be put into Wall Street, because of the high rates being paid for money then.

Senator WEEKS. When was that?

Mr. UNTERMYER. On the 1st of November, 1912; it was twice as much as these banks were lending in that way any 1st of November in any preceding year, yet the money was never more urgently needed at home.

Senator WEEKS. What were the rates?

Mr. UNTERMYER. Pretty high, I think, as high as 20 per cent.

Senator WEEKS. Not last November?

Mr. UNTERMYER. Yes; that was a terrible time of stringency.

Senator HITCHCOCK. Let me ask you if there is anything in the pending bill to prevent that situation?

Mr. UNTERMYER. Yes; I think that the whole theory of the pending bill will prevent it, for this reason——

Senator HITCHCOCK (interposing). What provisions in the pending bill will prevent it? I do not care anything about the theory.

Mr. UNTERMYER. The provision that makes commercial paper liquid, instead of being a dead asset, as it is now, until the day of maturity; the provision that makes that kind of paper desirable because of its rediscount privileges. That will turn, to my mind, the money of the country that has been employed in Wall Street, in stock-exchange operations, into commercial paper, because it will then be a liquid asset.

Senator HITCHCOCK. I understand that this $240,000,000 sent to New York City by country banks was not sent as a part of their reserves?

Mr. UNTERMYER. It was not sent as as part of their reserves. It was in addition to their reserves.

Senator HITCHCOCK. And it was not sent as a part of their deposits?

Mr. UNTERMYER. Of course, it was a part of their deposits; it must have been.

Senator HITCHCOCK. Not reserve deposits?

Mr. UNTERMYER. No; not part of their reserve deposits.

Senator HITCHCOCK. It was sent there because a good rate of interest would be paid for it.

Mr. UNTERMYER. And because it was liquid. Because of the fact that the only liquid asset a bank can get nowadays is a stock-exchange loan. The banks are right in putting their money in that form, because they can get it overnight. But when you arrange it in the United States as they do in other countries, so that commercial paper is quite as liquid as a stock-exchange loan, you will divert your loans to commercial paper.

Senator HITCHCOCK. Now, Mr. Untermyer, is it not the fact——

Senator WEEKS (interposing). May I ask Mr. Untermyer a question right along that line? You do not know of anyone who is opposed to making that change, do you?

Mr. UNTERMYER. I hope not.

Senator WEEKS. I do not think there is anyone.

Senator HITCHCOCK. This letter is written from O'Neill, Nebr., under date of September 6, on the letterhead of the First National Bank, capital $50,000, surplus $70,000—a very respectable bank. It reads as follows:

Senator G. M. HITCHCOCK,
Washington, D. C.

DEAR SENATOR: I admire the stand you are taking on the pending currency and banking bill. I can see no inducement for banks located as I am to longer remain in the national system if this bill becomes a law. I very much despise the present Nebraska guarantee law, but believe it to be much better than to be forced into a measure that gives the contributors no voice in the management.

This bill may do for the city banker. I can not see where it in any way will be of any benefit to the bank dealing with the farmers and located as I am.

I hope you may be able to so modify it as to give us the right to go in or stay out; and, from my present understanding of the bill, we will dead sure stay out.

With kindest personal regards, I am, yours, truly,

E. P. GALLAGHER.

Now, there is a country banker. He has been in the banking business——

Mr. UNTERMYER (interposing). Is he characteristic of many of the 26,000 bankers?

Senator HITCHCOCK. It is characteristic of all the letters that I have received from country bankers in Nebraska.

Mr. UNTERMYER. Very often a certain amount of misunderstanding about any complicated measure will exist among those affected by it.

Senator HITCHCOCK. I do not think this is a misunderstanding. This man has built up a very successful bank, and he has on the bottom of this statement, on this card, these words: "This bank carries no indebtedness of its officers and stockholders." It is a model.

Senator SHAFROTH. What is its capital?

Senator HITCHCOCK. Its capital is $50,000; its surplus, $70,000; deposits, $487,000; cash and due from banks, $146,000. Its loans are $400,000. That is what I consider a model country bank.

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. And as I have said, his statement shows that his bank has no indebtedness of officers or stockholders—which I know that Mr. Untermyer would approve of.

Mr. UNTERMYER. That ought to be posted in every New York City institution.

Senator HITCHCOCK. I knew that you would approve that. Now, here is a man who will not come in and who believes that others will not come in.

Senator SHAFROTH. Will he not get a benefit directly from the reduction from 15 to 12 per cent which will operate just as I have stated in my illustration of $100,000?

Senator HITCHCOCK. I want to ask Mr. Untermyer some questions on that head. This man is located at O'Neill, Nebr. If he should get into this system and keep all his reserves, either in his own bank or the reserve bank of his district, and he should go to his reserve bank for a discount and that reserve bank should say to him: "Mr. Gallagher, we do not care to discount any of your paper," what is he going to do?

Mr. UNTERMYER. Why, his paper is so good that it will have a market all over the country under this bill.

Senator HITCHCOCK. I am asking you what he is going to do?

Mr. UNTERMYER. Simply sell it through discount associations, acceptance houses, and other institutions that are bound to spring up under this bill. It will be as liquid as stock exchange collateral. Suppose you have an account with a broker, and you have got collateral, and you go to that broker and he will not give you a loan on that collateral. What are you going to do? Your collateral is good. You must go somewhere else.

Senator HITCHCOCK. I say that he is bound to keep his reserve in the reserve bank, but the reserve bank is not bound to discount his paper. As it is now, he can keep his reserves at Omaha, or St. Paul, or Chicago, or Minneapolis, or South Omaha, or St. Louis, and if the bank he is dealing with does not give him good treatment he can go to another. He is independent; but under the system proposed in this bill he is absolutely dependent upon one source that can practically ruin him by refusing to discount his paper.

Mr. UNTERMYER. I do not agree with you.

Senator HITCHCOCK. Can you explain how he can get relief under the bill?

Mr. UNTERMYER. If the bill carries out its purpose, this commercial paper is going to be as liquid as stock exchange loans, and he can get a loan anywhere.

Senator HITCHCOCK. I know that is a stock phrase, but how is he to get more collateral security when he goes to the reserve bank at Chicago and presents his paper at a discount and the reserve bank refuses to discount it? What is Gallagher going to do? His money is tied up in the Federal reserve bank.

Mr. UNTERMYER. Of course you are assuming that he is entitled to this discount. If his paper is turned down at the Federal reserve bank, he will take it to any discounting house or to any of the many people who are going to spring up to take care of that paper. He will sell it just as if that paper were secured by stock-exchange collateral.

Senator HITCHCOCK. Then he does not need it now?

Mr. UNTERMYER. What I mean is that he is not limited to that reserve bank. You need it now, because you can not build up an open market for bills of exchange, unless you have some such system as this. We have such markets everywhere else in the world.

Senator HITCHCOCK. You admit that at the present time Mr. Gallagher is very well situated. He can get half a dozen banks in Omaha to do business with.

Mr. UNTERMYER. That depends upon what he wants.

Senator HITCHCOCK. Undoubtedly. He keeps a part of his reserve in Omaha.

Mr. UNTERMYER. We have no right to assume that he will not get the credit from the reserve bank to which he is entitled. He and his associates will control the bank.

Senator HITCHCOCK. I would like to have you point out in the bill any way he can demand that as a matter of right—demand rediscount of his paper.

Mr. UNTERMYER. You must know that to be impossible to put in.

Senator HITCHCOCK. I think it ought to be put in somewhere.

Mr. UNTERMYER. It is not possible.

Senator HITCHCOCK. I think otherwise. You are going to destroy the independence of these country banks and make them absolutely dependent upon the yes or no of some man.

Mr. UNTERMYER. On the contrary they are dependent on the yes and no of their own shareholders. The shareholders direct these banks; they have six out of nine votes and it is fair to assume that their own representatives are not going to treat them unfairly. They have two-thirds of the representation on this board.

Senator SHAFROTH. The bill is drawn for the purpose of advancing money and they are given the right of representation in the institution that is created by the bill.

Mr. UNTERMYER. Yes.

Senator POMERENE. And under this bill they have the same right to go elsewhere to get their accommodations that they now have under the present law. They have the right to go to places other than the reserve bank.

Mr. UNTERMYER. Yes; in addition to which they will build up a market for this sort of commercial paper.

Senator REED. But they will not have the same right. It could more properly be said to be the same practical right—not the same legal right. There is nothing which says in terms that if they do not get money from the Federal reserve bank they can not go to another place to get money. If such a law were enacted, it would, of course, be unconstitutional; but under this law when it is in full operation the reserves carried by the member banks must all be put with the central reserve bank. Of course, that means that their reserves will be withdrawn from the banks where they now keep those reserves.

The CHAIRMAN. Not their balances.

Senator REED. I am speaking of reserves. It is true, as Senator Owen suggests, that they could keep balances in the other banks.

The CHAIRMAN. They are now doing it; 9 per cent in excess of the legal reserves.

Senator REED. Now, looking at it from a practical point of view, suppose that a banker with what ought to be regarded as acceptable security comes to this Federal reserve bank, presents his security, and is turned down. About how much chance would he have afterwards to have that paper rediscounted, unless there was a tremendous cut made in it, by any other member bank, or with any of the reserve banks?

Mr. UNTERMYER. My contention is that there will be such a general and open market for paper of this kind that the reserve bank will not be the sole resort of the member banks at all. It is not true in any other case. There are dozens and dozens in every one of these countries of other institutions that buy this paper, and they take it to the bank when they need the money.

Senator REED. There is no other country that has a system like this we are proposing to inaugurate.

Mr. UNTERMYER. No; there is no other country that has the large bank representation in the system that is given to the banks by this bill.

Senator REED. That is right where I think the danger lies. You seem to think that large representation is an element of safety.

Mr. UNTERMYER. You mean the bank representation?

Senator REED. The bank representation is just where I think the danger lies. A perfectly disinterested management of that kind might do one thing; an interested management would do quite a different thing.

Mr. UNTERMYER. But, in considering the character of our country and its diversified interests and climates and industries, you have to have a number of these banks. You can not have one bank any more than you can have one reserve bank for all Europe.

Senator REED. I am not speaking of one bank.

Mr. UNTERMYER. For these different banks you have two alternatives. One is to align the bank with the member banks of the country and the other is to have its capital issued to and bought by the general public, as it is in Europe. Everybody owns bank stock there. That is true of the Bank of England, with the Bank of France, and with the Bank of Germany. They have vast numbers of shareholders in very small holdings.

If you take the second course and issue this stock to the public—which I believe they will gladly take—then we have to do as the European banks do, open the doors and accept deposits from the general public and buy paper in the open market in competition with the banks. Those are the two alternatives. You have either to have one system or the other.

Senator REED. You are getting away from the thought I was trying to suggest to your mnid and upon which I wish to get your opinion. I am not going to undertake to express my own opinion now. I am trying to get your help this morning and I do not know any better way to get it than by a mere statement of what you think about it. In the banking world to-day there are some institutions so large and so powerful that they necessarily exercise a very considerable controlling influence over many other banks and generally over the whole financial world. They have their connections, direct or indirect. There are lines in many places. I said the other day to another witness, or rather advised him, that I have understood that there are a number of banks in my own State—splendid institutions; very strong—that have relations of some kind with the great financial institutions in New York City, and what is true of my State I take it is true of others. Now, just at this point I want to ask you whether or not you think that is the case.

Mr. UNTERMYER. It is undoubtedly the case. The ramifications are far greater than is generally realized.

Senator WEEKS. May I ask a question right there? I want to ask Mr. Untermyer what he means by "relations," if you will allow me.

Mr. UNTERMYER. I do not mean by "relations" that they control these institutions. What I mean is that they are the correspondents for these banks; that they sometimes hold stock in the bank.

Senator WEEKS. Frequently?

Mr. UNTERMYER. Infrequently. That they sell securities to these banks, because some of our banks in New York are sellers of securities as you know; and they frequently load them up with a great many securities; that these banks throughout the country or their officers are underwriters in a great many of the financial enterprises that are floated from New York; and that in one way or the other the ramifications of the great New York banks are very diversified.

Senator REED. In other words, and in a word, no matter what the relationship springs from, there is an intimate, close working arrangement between many of the banks of the country and large financial institutions of the East, so that they make up in a way a chain of banks which may run across the country, or partially across the country?

Mr. UNTERMYER. I would not put it quite so broadly as that—that they make up a chain. They certainly have relations and at times they have certain spasmodic relations. They have various relations.

Senator REED. I intended to go into another matter, but since the Senator has raised this question——

Senator NELSON. Senator Reed, may I ask a question or two in this connection? I do not deisre to interrupt you.

Senator REED. I will come to a sort of a stopping point in a moment. I want to speak of this kind of relation. Take a man of immense capital, and there are a few in this country, interested in a bank or two in New York City, interested in a bank or two in Chicago, interested in some other banks in other towns, having a controlling interest or having a potential interest. Does not that condition exist?

Mr. UNTERMYER. Not in that form to any extent, Senator Reed. I do not think that any of the men who have very large interests in the great banks of New York have very large interests—stock interests—in the banks of other cities; not to any appreciable extent. Of course they have very great interests in a number of banks in New York City, and they have relations more or less close with great institutions throughout the country, such as being their correspondents, such as having participated in large syndicate transactions, and in a variety of other ways; but the stock interests of the few great men who control things in New York in banks outside of New York are not appreciable.

Senator REED. Aside from the stock holding, what is the tie?

Mr. UNTERMYER. The tie is a very close one.

Senator REED. I will say to you frankly that I know of many banks out West generally regarded by the business world as Morgan banks, and they seem to be able to get money in greater quantities and have better facilities through some means for handling large enterprises than other banks of the same capital.

Mr. UNTERMYER. The tie is a recognized tie. It is a tie largely of mutual participation in great financial enterprises. For instance, you

take the banks in Senator Weeks's city, in Boston. In two of the three great banks there there is largely represented interests of Kidder, Peabody & Co. and Lee, Higginson & Co. Lee, Higginson & Co. have very close relations with Morgan & Co., in New York. They make vast sums of money together. Lee, Higginson & Co. are a very potent factor in two of those three big banks there, not only because they own a considerable amount of stock, but mainly because they are a large part of the support and prosperity of those banks. They are identified with so many great institutions, railroad and industrial, whose deposits go into those banks, that they would be a most important factor, even though they did not own any of the stock. Stock ownership is not the criterion of control or influence over a bank. The true criterion is the capacity to bring business and otherwise aid in the upbuilding of the institution.

Senator WEEKS. Let me suggest to you in that connection that Lee Higginson & Co. do not any more control those banks than you do.

Mr. UNTERMYER. I said two of the three, you will remember.

Senator WEEKS. I am speaking of the two of the three that you are. They do not any more control the banks than you do.

Mr. UNTERMYER. Senator Weeks, I have not said they controlled the banks. What I have said is that they have substantial stock holdings in both of those banks.

Senator WEEKS. They have.

Mr. UNTERMYER. That was proven by the testimony before the Pujo committee, and I refer you to the testimony taken there for detailed information on the subject, but that is the least part of the control they exercise. The mere stock interest is the least part of the control they exercise. The real source of the power they have in those banks, and justly so, is their ability to build up and add to the success of those banks, because of the great enterprises in which they are engaged, whose deposits are directed to those banks.

Senator WEEKS. Now to what extent does that interest control the policy of the bank? I know something about the case of Lee Higginson & Co. I would like to have you explain what that interest amounts to.

Mr. UNTERMYER. In what direction? Nobody has assumed any malign influence in this discussion.

Senator WEEKS. If there is not any malign influence, what kind of influence do Lee Higginson & Co. have over these banks?

Mr. UNTERMYER. Well, in the first place, they buy and sell securities, do they not?

Senator WEEKS. Occasionally.

Mr. UNTERMYER. Very much more frequently, if you will pardon me, Senator Weeks, than you seem to think. If you will look over their lists of securities.

Senator WEEKS. I know what their lists of securities are. They probably own a couple of millions, but they are both $75,000,000 banks.

Mr. UNTERMYER. I think you will be surprised to find that they have a good deal more than that.

Senator WEEKS. I am not going to be surprised, because I know better.

Mr. UNTERMYER. That is my recollection.

Senator WEEKS. You are trying to recollect a lot of things and I think your recollection is at fault in that instance.

Mr. UNTERMYER. Perhaps so, but I think not. At any rate, even though they do not hold securities issued by these financial houses to the extent stated they participate in underwritings and are otherwise identified with them.

Senator WEEKS. Very seldom.

Mr. UNTERMYER. But they do participate even though it may be seldom.

Senator WEEKS. They undoubtedly do, but it is very seldom.

Mr. UNTERMYER. And Lee Higginson & Co. are a very great aid to those banks.

Senator WEEKS. Undoubtedly they divert business to those banks whenever they can, because they are stockholders and they want to make those banks prosperous.

Mr. UNTERMYER. It is right that they should.

Senator WEEKS. Yes, it is right that they should.

Mr. UNTERMYER. There is that tie.

Senator WEEKS. Yes, there is that tie.

Mr. UNTERMYER. And then there is that tie between Lee Higginson & Co. and J. P. Morgan & Co.

Senator WEEKS. That is true; but J. P. Morgan & Co. do not own stock in those banks.

Mr. UNTERMYER. I understand; it is not necessary so long as they have Lee Higginson & Co. as their partners.

Senator WEEKS. What I am trying to get at is what influence J. P. Morgan & Co. or Lee Higginson & Co.—what that influence amounts to, if it is not a malign influence. What is it?

Mr. UNTERMYER. It is the ability to influence the making of loans on great financial projects.

Senator WEEKS. You refer to good loans?

Mr. UNTERMYER. Well, generally speaking, yes; but everybody can not get money on good security, and it has an influence in preventing or refusing loans to enterprises that are not favored by these people and which may be in competition with them. That is the point.

Senator WEEKS. Do you think that has ever happened in the case of those banks?

Mr. UNTERMYER. I would rather not say anything on that subject. I do not care to express an opinion at this time. It is not germane to our present discussion. The subject is fully discussed with complete data in the report of the Pujo committee.

Senator WEEKS. Do you know anything about it?

Mr. UNTERMYER. I do not know the inner workings of those banks.

Senator WEEKS. Let me say for the public record, as far as that is concerned, that Lee Higginson & Co., in my judgment, have never attempted to influence the making of loans to anybody else, or buying any other securities than those which they control themselves if the notes and securities offered were good.

Mr. UNTERMYER. I have not assumed that they have.

Senator WEEKS. But when we talk about influences in the tone in which that is being discussed, the impression is given that malign influences or some improper influences are being used. Of course, a bank aids its customers—its good customers—whenever it can. If

Lee Higginson or anyone else keeps a good account with the National Shawmut Bank, of Boston, the National Shawmut Bank is going to try to aid Lee Higginson & Co. in their business enterprises whenever it can properly do so.

Mr. UNTERMYER. Do you believe that if a body of men wanted to start competition with the United States Steel Corporation to-morrow or at any other time that they could borrow money from any of those banks?

Senator WEEKS. They could from one of them.

Mr. UNTERMYER. I am not speaking of the three banks.

Senator WEEKS. If the loan was good they could get the money; if it was not good, if it was a hazardous loan, they could not get it.

Senator REED. Well, we are getting away from what I was talking about. I do not care whether it is stock ownership; I do not care whether it is the simple power of great capital, but the point is that here are these great monopolistic enterprises and there is a tie, one tie or another, which you state, in your opinion, exists, and which spreads out in many directions.

Mr. UNTERMYER. Yes; in the way I have stated. It is a nebulous, intangible sort of thing.

Senator REED. But like the nebula it may be very powerful if it gets together. A nebula may make worlds and planetary systems.

Mr. UNTERMYER. I have always contended that it had a great deal of power.

Senator REED. What I am getting at is this, and this is the next step that I want to take: Is it not, in your opinion, very likely to happen that these same powerful influences which now exist in an unorganized condition will be potent in the organization when once created? I mean by that—I will put it again in the form of a statement.

Mr. UNTERMYER. I understand.

Senator REED. I will take my section of the country. There will be a regional bank in which we will be incorporated. There are a lot of little banks out there and there are a few large banks. The large banker is active, looking at the broad field; the small banker is active, but he is looking generally after his particular institution. Here are these large banks that have these influences of which we have been speaking, ramifying out from a central point. We are going to elect three directors for a regional bank. Whom do you think is going to exercise the most potent interest in that election?

Mr. UNTERMYER. That is a mere matter of conjecture.

Senator REED. Is it a matter, really, of conjecture? Is it not a matter of just prudent forethought?

Mr. UNTERMYER. My point, however, is this: That we are in such a perilous condition in the situation in which we now find ourselves that this proposed bill can do only good in the direction you are seeking.

Senator REED. I am not talking about a choice between two evils.

Mr. UNTERMYER. I believe it will dissipate a lot of that.

Senator REED. We are about to create a system.

Mr. UNTERMYER. I believe it will scatter it.

Senator REED. It is our business to try and create a law, or rather a system, no part of which will be at fault, and to try to completely overcome any present evil conditions.

Mr. UNTERMYER. I think this bill will aid largely, and for this reason: Every bank has representation in the directors regardless of its size—equal representation and the naming of an elector. The small bank has as much to say about the election of those three directors as the large banks.

Senator REED. That far it is good.

Mr. UNTERMYER. That tends to overcome the power of the big banks in the first place.

In the second place, when you take the second class, class B of the directors, the Government has supervisory power over the operation of those gentlemen and can remove them if they do not truthfully represent the agricultural, industrial, and commercial interests they were formed to protect.

Senator SHAFROTH. They can do that for cause.

Senator WEEKS. How is that cause to be determined—whether they are representing those interests properly or not?

Mr. UNTERMYER. I understand as the bill stands the Government simply has the power of removal. It does not need to give them a trial.

Senator O'GORMAN. The reserve board in Washington can remove them for cause and the reserve board is the judge of the cause.

Mr. UNTERMYER. I think so, as I read the bill. If it is not so it ought to be so. That being so, I think there is nothing to fear in the domination of these reserve banks; and that is one reason for having a number of them rather than a few. The danger of the domination of those reserve banks by the great financial interests is so trifling as compared with the control they now exercise over the finances of the country that we should fly to this measure for protection because I have not seen anything better suggested.

Senator O'GORMAN. For protection against what, Mr. Untermyer?

Mr. UNTERMYER. For protection against the concentration of the credits of the country and the control of those credits in a few hands—to promote the dissipating of the control of the credits.

Senator O'GORMAN. You are familiar with the banking conditions in Europe, are you not?

Mr. UNTERMYER. Yes; fairly.

Senator O'GORMAN. You think the banking conditions in Great Britain are quite satisfactory?

Mr. UNTERMYER. Very; and vastly superior to ours for this reason——

Senator O'GORMAN. I do not ask for your reasons just now. Would the same be true of the conditions in Germany and France?

Mr. UNTERMYER. Yes; they have less banks, but they are real competitors.

Senator O'GORMAN. In Germany the great banking center is Berlin, is it not?

Mr. UNTERMYER. Berlin is one of the great banking centers; yes.

Senator O'GORMAN. What is the next?

Mr. UNTERMYER. Frankfort.

Senator O'GORMAN. And Paris is the great banking center of France?

Mr. UNTERMYER. Yes.

Senator O'GORMAN. And London of Great Britain?

Mr. UNTERMYER. Yes; London; but there are other big centers in England where you can get large sums of money without going to London.

Senator O'GORMAN. Is there any difference between the influence exercised by the great London bank in Great Britain and the great bank in Paris, through France, and the great banks in Frankfort and Berlin, through Germany? Is there any difference between these influences and the influences that you think prevail in this country with respect to the New York banks?

Mr. UNTERMYER. Yes; a vast and fundamental difference.

Senator O'GORMAN. In what respect?

Mr. UNTERMYER. You can go with a venture to London and if it is a meritorious venture and you are turned down in any one of seven of the great banking houses you can go to the eighth place and they will take it up without regard to what the other men have done and without consulting them. In other words, there are separate and distinct groups in London; there are less numbers of banks, but there are more separate groups and they operate independently of one another; they do not operate in concert with one another; and the result is that there is competition for the best kind of financial business, which does not exist in New York. You could not carry out a great venture in New York requiring a large sum of money against the opposition of some one, two, or three individuals or institutions there. They would consult one another before acting.

Senator O'GORMAN. You do not think the London bankers consult one another in respect to large enterprises?

Mr. UNTERMYER. They do not in that sense. There are different groups of bankers, different sets of underwriters. I have had considerable experience in that direction for the past 25 years, and I know that to be a fact. They operate in absolute independence of one another, which is in striking contrast with our unfortunate conditions, as you will find demonstrated in the report of the Pujo committee. There is no custom of interlocking directorates, either. That is practically unknown abroad.

Senator O'GORMAN. You say that is also true of the banks of Frankfort and Berlin.

Mr. UNTERMYER. It is true in Berlin to a somewhat less extent. There are less independent units there.

Senator O'GORMAN. How about Paris?

Mr. UNTERMYER. There are less independent units in Paris than in London, but more than in Germany.

Senator O'GORMAN. What are the leading banks in Paris?

Mr. UNTERMYER. There are five or six, as I recall, including the Credit Lyonnais, the Bank of Discount, and the Bank et des Paris de Pays.

Senator O'GORMAN. The Credit Lyonnais is the powerful bank of France, is it not?

Mr. UNTERMYER. Not the only one. There are one or two others that are almost equally powerful.

Senator O'GORMAN. It has connections and branches in every department of France, has it not?

Mr. UNTERMYER. Yes, sir; as have one or two other concerns their branches in other parts of France.

Senator O'GORMAN. Then, among the great banking interests of France there are but two or three or possibly four units?

Mr. UNTERMYER. Well, not more than a half dozen, we will say.

Senator O'GORMAN. You say there are not that many in New York City?

Mr. UNTERMYER. What I said was that in New York City there were far more units, but they operate together and they are interwoven and intertwined and they have places where their interests all come together in given institutions, so that they may be regarded as, in fact, constituting very few units, so far as concerns genuine competition. They share in one another's enterprises. The smaller men live to some extent on the patronage of a few big men and their enterprises, and when it comes to the attempt to do any business or to finance a new enterprise that would compete with any one of them or with any business that is under the protection of any of the big men the others rise as one man in the defense of that one's privileges. It is the most hopelessly despotic system in the world.

Senator NELSON. Mr. Untermyer, does the system which exists in New York of making call loans on stock collateral exist either in France, Germany, or England?

Mr. UNTERMYER. Not exactly in that way. They make loans.

Senator NELSON. Call loans?

Mr. UNTERMYER. They make loans for the fortnightly settlements, you know.

Senator NELSON. Do they make call loans, demand loans, secured by stock collateral, as they do in this country?

Mr. UNTERMYER. In a somewhat modified form in England they do.

Senator NELSON. I am speaking of demand loans.

Mr. UNTERMYER. Demand loans in the sense that they are payable at the fortnightly settlements. They do not settle every day on the London Stock Exchange as they do here.

Senator NELSON. A moment ago you spoke of these stock collateral call loans as liquid loans.

Mr. UNTERMYER. Yes.

Senator NELSON. The panic of 1907, as well as the panic of 1893, and the panic of 1873, disclosed this fact: That in the assets of a bank these stock collateral demand loans were indicated as liquid but they were the poorest of all loans.

Mr. UNTERMYER. I do not think so, Senator. I think it is only fair to say that they proved to be the best way in which a man could get his money.

Senator NELSON. In the panic of 1907 when the Treasury Department dumped so much money into New York to stop the panic there, was not most of that money used by the leading banks to check the panic on the stock exchange?

Mr. UNTERMYER. Yes——

Senator NELSON. And not for the purpose of moving the crops out West?

Mr. UNTERMYER. I think there was over $25,000,000 used, most of it disbursed by J. P. Morgan & Co., to stop the panic on the stock exchange. All the figures on that subject are collated in the testimony taken by the Pujo committee.

Senator NELSON. Is not this a fact: That in the midst of a panic these stock collateral loans, demand loans, when the banks which took

the loan makes a call on the borrower and wants the money, the borrower has not got the money. He tries to get it from another bank, and all the banks are in the same condition; they are all holding back their money. How can you call that loan liquid then?

Mr. UNTERMYER. It is liquid because it is always covered by an excess of about 20 per cent collateral readily salable, and all the man does when he can not get his money is to sell the security on the stock exchange and get his money.

Senator NELSON. But in times of panic he can not get his cash. He has to take clearing-house certificates.

Mr. UNTERMYER. The man who has the loan gets the money, and I do not think anybody during panic conditions did not get money on that sort of loans.

Senator NELSON. Did not the clearing house settle their balances with clearing-house certificates?

Mr. UNTERMYER. The banks in the clearing house, yes; but the individual lender or creditor who had a loan, amply secured by active stock-exchange collateral, got his money.

Senator NELSON. How did it come that actual cash was at a premium at that time?

Mr. UNTERMYER. Because, I suppose, the banks would not give up the money they had and people could not get the money out of the banks, and because they did settle their differences between their members by clearing-house certificates. It was the very wise thing to do.

Senator NELSON. Out West, in our agricultural country, where we live, we find that mortgages on real estate, on improved farms, are the very best security.

Mr. UNTERMYER. That may be well secured, but they are not liquid.

Senator NELSON. They can be sold, just like your call collaterals, can they not?

Mr. UNTERMYER. They are not due. You can not go to the borrower and get the money.

Senator BRISTOW. How can you go to the borrower and get the money on a short-time note if he has not got the money?

Senator REED. Mr. Chairman, the Senate meets at 12 o'clock today, and I wish we might take a short recess.

The CHAIRMAN. Very well, we will meet 30 minutes after the Senate adjourns.

(Thereupon, at 12 o'clock m., the committee took a recess.)

AFTER RECESS.

The CHAIRMAN. The committee will come to order. Mr. Untermyer was examined in such a way that he was rather deflected from the proposition he started on.

Senator SHAFROTH. I would like to state to Mr. Hitchcock, with relation to his First National Bank of O'Neil, that if you should calculate what they have to pay under the present bill and what they have to pay under the present law, you will find that they have to pay on 10 per cent, which would be $5,000——

Senator HITCHCOCK. Pay what?

Senator SHAFROTH. To the capital stock of the reserve bank, $5,000; and then they would have to pay 5 per cent upon their deposits—deposits of about $500,000, which would make $25,000—the total amount which would be required to be paid in cash to the Federal reserve bank would be $35,000. They have to keep as reserve now $45,000, whereas the amount which they have to keep as reserve and payment on their capital stock is only $30,000 and consequently it is $15,000 less in cash that they have to put up under this new bill than under the old law. If you take the amount which they now hold in their banks as recited by you, $146,000, and deduct from it $30,000, which they have to put up under this new bill, it would leave them $115,000 which they could put in their bank; and therefore they could get a competing bank to figure on rates of interest or loans for that on the market which they have, according to the amount which they have now in their bank, and for that reason it does seem to me that this new bill would be of advantage to that very bank, according to its own figures.

Senator HITCHCOCK. I do not think you and I had better discuss that now. I think we had better take Mr. Untermyer's views.

Mr. UNTERMYER. Now, taking up the discussion of this bill that is before us, I have these suggestions to make:

First, as to the conditions on which State banks shall be permitted to become members. As I remember the provisions of the bill the State bank in order to become a member is only required to conform to certain conditions of the bill. It is not bound to restrict its charter powers to the powers that would be possessed by a national bank. If the theory of the bill is to be carried out with the subscription of the national bank made compulsory, as I think it should be, State banks ought not to be permitted, to my mind, to get the benefit of membership in this system, unless their charter powers are restricted to the charter powers of the national bank. Unless those powers are so restricted there is very little incentive left to the national bank to stay in the system, because by becoming a State bank it can widen its powers. The powers of national banks should be somewhat amplified and made more liberal.

Senator POMERENE. In what respect?

Mr. UNTERMYER. They ought to be permitted to be trustees of mortgages, as State banks and trust companies can now be trustees of mortgages.

Senator HITCHCOCK. Of course, you realize that in many States there is no system of that kind. In the West we have no trustees for mortgages.

Mr. UNTERMYER. We have in this way: Trust companies in a great many Western States have the right to become trustees of mortgages made to secure an issue of bonds. It is a lucrative business. In my practice in almost every State in the Union I have had such trust companies act as trustee.

Senator HITCHCOCK. I thought you referred to a deed of trust, such as is given by individuals as security for loans.

Mr. UNTERMYER. I mean trustee under a deed of trust to secure an issue of bonds. A trust company now performs that function, and there is no reason why a national bank should not have the right to perform the same function. Many trust companies now act as

executors and trustees of estates, and it is a question whether national banks should not be given that power.

Senator WEEKS. Do you think they ought to be given that power?

Mr. UNTERMYER. I do not see why not. If a trust company can safely exercise that power, which involves the investment of no capital of the bank and simply involves investing and holding the fund in compliance with fixed rules of law, I see no reason why a national bank should not have that same privilege. On the other hand, there are trust companies in many of the States, like New York, that have powers that are such that I think render it rather precarious to permit them to become members of this system, and would give them an undue advantage. They can invest money in stocks. I know some of them that buy and sell stocks very liberally.

National banks have no right to buy or deal in stocks. The Comptroller of the Currency says they have the right to buy and hold bonds for investment, but that is very doubtful. They do, in fact, hold bonds, but I do not think the phraseology of the national-bank act permits them to hold them nor to invest their money in that way. It was never contemplated, to my mind, that a national bank should act as an investment company. Its assets ought to be liquid; but if you are going to allow State banks and trust companies to buy and sell stocks while national banks can not do so, national banks in the large cities may go into the State banking system. But if you will say that a State bank which wants to become a member of a reserve bank must conform in its charter to the powers given to national banks there will be very little incentive for the national banks to change.

Senator POMERENE. And there will be less incentive for the State bank to go in.

Mr. UNTERMYER. To go into the national system.

Senator POMERENE. Yes; thereby curtailing their powers?

Mr. UNTERMYER. Except on the assumption upon which I have been proceeding that no bank can afford to stay out; that it can not stand the competition of the banks in the system. In other words, the ability to use its capital through the process of rediscount and the other rights given by this bill are so attractive that I do not believe the banks outside can compete—certainly not in the larger cities.

Senator WEEKS. Mr. Untermyer, do not you think this bill should be so framed, if possible, that it would draw in—not drive out—all banks not in the national system, so that we would have one banking system in the country?

Mr. UNTERMYER. Yes; that is the one thing to be hoped for if this plan is to be a success—that you will have all the banks in. The only question is how to get them in. I say the best way is not to furnish an inducement for them to go out. If State banks have powers not possessed by national banks and can go into the system with those powers why should not the national bank convert itself into a State bank and go in with these added powers?

For the purpose of preventing that situation I should unify the powers of national and State banks that become members, broaden the national-bank powers wherever possible, so they will conform to the reasonable powers of the State institutions.

Senator WEEKS. How can you unify the powers? We have no control over the powers of the State banks.

Mr. UNTERMYER. No; except that you can say that a State bank shall not be permitted to go into the system unless its powers conform to the powers of the national bank. Either I am right or I am wrong about the attractiveness of this plan. If I am right, they will go in; if I am wrong, they will not go in. It is not required that they shall narrow their powers very much. It simply requires that they shall step out of the speculative purchasing of stocks.

Senator SHAFROTH. Mr. Untermyer, here is a provision of this bill and I wish you would say whether it covers the objection, and if not, whether you could add something which will cover it. It is on page 16, and I will read it.

It shall be the duty of the Federal reserve board to establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies hereinbefore referred to for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve requirements and submit to the inspection and regulation provided for in this and other laws relating to national banks. No such applying bank shall be admitted to stock ownership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national banking act, and conforms to the provisions herein prescribed for national banking associations of similar capitalization and to the regulations of the Federal reserve board.

Will you state what in addition to that will cover the point you make?

Mr. UNTERMYER. I have considered that provision very carefully and it is in the light of that provision that this suggestion is made.

Senator SHAFROTH. What suggestion has been made?

Mr. UNTERMYER. All the State bank is required by this bill to do is to comply with the reserve requirement, submit to inspection and regulation, and to conform to the provisions of this act. That does not involve any curtailment in its powers, whatever they may be. If, for instance, it has the power to buy and sell stocks on the market, it could still buy and sell stock and be a member of this reserve association.

Senator SHAFROTH. I think your suggestion is a good one. What I want to do is to have you formulate something to put in there to make an addition to the bill.

Mr. UNTERMYER. I will be very glad to do so.

Senator HITCHCOCK. Suppose, Mr. Untermyer, the Corn Exchange Bank in New York City, a State bank, having a large number of branches, as I understand, should desire to come into this association, under this bill; could it come in with all those branches?

Mr. UNTERMYER. It could under this bill, yes; but it ought not to be permitted.

Senator HITCHCOCK. You do not believe in branch banks?

Mr. UNTERMYER. I am very much opposed to branch banks. If national banks could have branches we would have mighty few banks in this country now. The great institutions would have established branches which would have driven the smaller concerns out of business. I do not think our institutions are adapted to the branch-bank system.

Senator SHAFROTH. Can you formulate an amendment to the bill to-night?

Mr. UNTERMYER. I will draft it now, if you do not mind.

Nor unless its charter powers are restricted to those that may be possessed by a national-banking association.

Senator SHAFROTH. Where would you put that—after the word "board"?

Mr. UNTERMYER. After the word "board," at the end of line 25:

Nor unless its charter powers are restricted to those that may be possessed by a national-banking association.

Senator HITCHCOCK. How would the bank go to work to restrict its charter powers?

Mr. UNTERMYER. By filing an amended charter.

Senator REED. Would not you reach that, Mr. Untermyer, much better by providing:

Provided, however, That when such bank comes into this system its powers shall thereupon become restricted to those permitted under this act.

In other words, you would not compel them to go through the form of having their charter changed, which might be very difficult. Indeed, many of them are not chartered at all. In one sense of the word they exist under a general law which they are powerless to change. But if you were to provide as I suggest it seems to me, then, by virtue of the act of coming in their powers would thereby become limited.

Mr. UNTERMYER. As a legal proposition, I would say they would not. They would go out of the system.

Senator REED. If they violated or exercised any of the forbidden powers, they would have to be disciplined.

Mr. UNTERMYER. They would go out of the system. An act done by them under that provision would not be ultra vires of the corporation.

Senator REED. No; it would not be ultra vires of the corporation, but the difficulty is the one I suggest. You take a bank in my State. It does not get a charter from the legislature. There is a general banking law, and when a bank is organized under that act it possesses all of the powers prescribed in the act.

Mr. UNTERMYER. Of course, it can by its certificate limits its powers.

Senator REED. Well, I doubt that.

Senator SHAFROTH. It seems to me that is a very good suggestion and I think you ought to dictate it now, so we will not overlook it.

Senator REED. I will do so.

Senator HITCHCOCK. That is true of all the Western States; it is only in the Eastern States where special charters are granted.

Mr. UNTERMYER. We do not grant them in our State. Nearly all of the Eastern States now operate under a general banking law.

Senator HITCHCOCK. But take a corporation existing in a State which empowers its corporations to exercise certain functions. They exercise those functions by virtue of the law and not by the virtue of incorporation papers.

Mr. UNTERMYER. But it has the right under that certificate to take as much or as little of that power as it chooses. It need not take it out unless it desires.

Senator REED. As I stated, I will dictate the provision I suggest:

Provided, however, That when such bank comes into this system, its powers shall thereupon become restricted to those permitted under this act.

What I have stated would not be the phraseology which should go into the bill, but it embodies the idea.

Mr. UNTERMYER. I think that entirely answers the purpose.

Senator REED. I want to say that is a very radical departure from the suggestion made here by some bankers who thought that trust companies and State banks would not come in at all if their powers were restricted and then some one asked the question whether that would not give them the advantage, and they seemed to admit it would. What is your idea about that?

Mr. UNTERMYER. Why, my idea would be to broaden somewhat the powers of a national bank.

Senator REED. If I am not cutting in on somebody else's examination—I do not want to do that—I would like to ask Mr. Untermyer one or two questions. Would you permit a national bank to loan upon real estate securities; and if so, to what extent?

Mr. UNTERMYER. I am rather opposed to that. I think there should be a separate system of land credits. I do not think it is the function of a bank whose assets should be liquid to loan upon real estate, except very short-time loans, and that is of no consequence, and that is not useful.

Senator REED. Mr. Untermyer, I want to direct your thought right on that question of liquid securities. It is in connection with an idea that has occurred to me. I again prefer making a statement to asking a question. I understand that the objection which bankers have to investments in State bonds or county bonds, municipal securities or farm mortgages, is founded in the fact that all of these securities have a long time to run, and, therefore, you say they are not liquid. That is they do not mature rapidly so that the money can be speedily obtained by virtue of the maturement. Now, if that is true, suppose there was a system provided by which those securities could immediately be cashed. Would they not then become absolutely liquid?

Mr. UNTERMYER. If we grant your premises, they would; but they have not found any method to do that abroad.

Senator REED. I am not speaking about what is done abroad. You know we do not find very many principles of government abroad that we think fit this Government, and it might be that statement could be extended to principles of finance.

Mr. UNTERMYER. I do not think it extends to finance. I think we are children in finance.

Senator REED. But they would be liquid; that is the point I am trying to get at.

Mr. UNTERMYER. If you made them liquid they would be liquid.

Senator REED. Now, they are safer, as an actual matter of safety, than ordinary notes of hand, are they not? Speaking largely now, assuming in both instances reasonable care, they are a safer line of security, are they not?

Mr. UNTERMYER. I would not like to answer that categorically. I should like to enter into an explanation of other provisions that come into this bill.

Senator REED. I am going to assume it, because the world assumes it.

Mr. UNTERMYER. The world assumes that genuine commercial credits are the safest basis.

Senator REED. I know they do in the banking world.

Mr. UNTERMYER. And they are, too.

Senator REED. Well, personally, I would rather have a farm mortgage on a good piece of agricultural land, so far as safety is concerned, than I would to have the note of John D. Rockefeller, because the land is there and nothing can take it away. However, I do not care to argue the question with you. If they can be made liquid, there would be no reason for not accepting them, would there?

Mr. UNTERMYER. You mean made realizable over night?

Senator REED. Yes, sir.

Mr. UNTERMYER. No; there would be no reason.

Senator REED. We are proposing to create a system here in which you can take a note of hand unsecured——

Mr. UNTERMYER (interposing). Not unsecured.

Senator REED. Putting an unsecured note—I mean it is not secured by collateral—and it is unsecured except that the name may be good or the names of two makers?

Mr. UNTERMYER. And the bank.

Senator REED. And you put that into a member bank, and you can indorse that paper and take it to a reserve bank and transform it into money at once. That is this system.

Mr. UNTERMYER. Yes, sir.

Senator REED. Suppose that instead of my taking my note of hand, as a purchaser I take my note of hand with a good farm mortgage back of it, and I put that into the member bank.

Mr. UNTERMYER. With what maturity?

Senator REED. I do not care if it is 10 years. That member bank takes it to the reserve bank and gets the money. The bank has got the money, has it not? It has relieved the member bank instantly?

Mr. UNTERMYER. Yes.

Senator REED. Now we come to the question of the reserve bank's condition. The reserve bank has issued a currency which is heavily taxed in order that it may not stay out too long. The member bank takes that money that it got back and puts it in its vaults and proceeds to use it and loan it out, so that the money has now gone into circulation; and in 30 or 60 or 90 days it wants to retire and take out this currency. What is too hinder it taking the money it got, putting it into the currency trade, and coming over and taking that note out? Why is it not a perfectly feasible thing, provided the class of long-time security is limited so that the amount could be limited?

Mr. UNTERMYER. If you make it an infinitesimal amount, it only weakens the system to an infinitesimal degree.

Senator REED. I do not mean to make it an infinitesimal amount, but I mean to make it substantial; not altogether long-time security.

Mr. UNTERMYER. To the extent to which you clog up the marketability and the liquid character of the flow of the currency between the member banks, the reserve bank, and the Government, to that extent you weaken the system.

Senator REED. Really, now, Mr. Untermyer, I am not trying to argue this; I am trying to elicit from you an absolutely unbiased judgment, and I want you really to consider this.

Mr. UNTERMYER. I have considered it.

Senator REED. I am not speaking about a condition whereby a bank would deal in nothing but farm mortgages and, suddenly being pressed, would come up with nothing but long-time paper; but assuming that a bank is doing a considerable business in short-time paper, could it not with perfect safety carry some long-time paper, because it can instantly convert it into cash, and thus get 30, 60, 90, or 120 days in which to gather in this money and utilize this short-time security by simply calling it in?

Mr. UNTERMYER. All I can say in answer to that is that I do not think that the class of security is a legitimate basis of a currency issue at all, whether it is a small amount in proportion to the bank's assets or whether it is a large amount in proportion to the bank's assets.

Senator REED. Do you think a Government bond is?

Mr. UNTERMYER. I do not think a Government bond is, either; and in Europe they do not, and they do not issue currency except to a very limited extent upon Government bonds For instance, you take the Bank of Russia; it will issue currency upon grain in the warehouse; and the Bank of Germany and the Bank of France will issue currency upon merchandise that is unsold, to a limited extent, whilst they will not issue currency upon municipal or Govern ent bonds.

That brings me to the discussion of what is commercial paper, and in that respect I think that is the most important part of this subject of reserves.

Senator REED. Yes; but I take it that your fundamental reason for answering my suggestion rather in the negative lies in the fact that you would not take any long-time security, even if it were a county bond, a municipal bond, a State bond, or a Government bond?

Mr. UNTERMYER. I think not. I think it is absolutely unsound and unscientific finance.

Senator REED. And if a farm mortgage were bad, a Government bond would be bad, except that the Government bond is a higher class of security?

Mr. UNTERMYER. Relatively, that is about the proposition; and if you will allow me I hope to develop that a little later, because that is really the most important consideration, to my mind, in this bill; that is, as to what is commercial paper. Unless we are to have a great inflation resulting from this bill, if you are going to allow currency to be issued except upon paper that automatically retires itself in the current course of business, according to human experience, paper that represents an actual transaction, in the purchase and sale of merchandise, if you are going to depart from that to any extent, I think you run into the danger of great inflation.

The next suggestion I have to make in that line is that the reserve banks should have broader rediscounting power as to the character of paper that they may take than to rediscounting paper that is the basis of a currency issue. As the bill now stands, the reserve bank can only rediscount classes of paper that it may turn over to the Government, and for which it may get currency. It is limited to that. It ought not, in my judgment, to be so limited. I do not think it can get enough paper of that kind, according to our methods of doing business, for a long time to come; and even if it could, there is no rea-

son to my mind why the reserve bank should not be able to rediscount for the member banks a certain proportion of paper that would not be the legitimate subject of currency issues.

Senator REED. In other words, you would want to enlarge their power of investment, but do not want to enlarge the power of inflation—I will use that term?

Mr. UNTERMYER. Yes. I want to distinguish between the two. I want to curtail the power of currency issue to define more clearly and more narrowly and correctly commercial paper and what is commercial paper for which currency can be issued so as to prevent the clogging up of the source of issue by paper that does not automatically retire itself.

I want first to call your attention to the definition in this bill of what paper is eligible to rediscount—what the framers of this bill have regarded as commercial paper, which I do not think is commercial paper.

Senator SHAFROTH. What section?

Mr. UNTERMYER. Section 14.

Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transactions——

Senator REED. What issue have you there?

Mr. UNTERMYER. I have got the last copy of the bill.

Senator SHAFROTH. There is a change in the language there. This is the act as it passed the House. It says:

Upon the indorsement of any member bank any Federal reserve bank may discount acceptances of such banks which are based——

Mr. UNTERMYER. That is another provision. This is up here [indicating]. That has not been changed.

Senator SHAFROTH. Had you not better use the act itself?

Mr. UNTERMYER. Yes. That has not been changed. I have this one marked. [Reading:]

Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of a commercial transaction; that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or may be used, for such purposes.

That is not commercial paper at all, according to any known rule of commercial usage. In the first place, a note may be drawn to buy a farm. That would be for agricultural purposes. Or it may be drawn to buy a factory, and that would be a note drawn for commercial purposes, but that is not commercial paper:

The proceeds of which have been used, or may be used, for such purposes.

In other words, you do not know what may happen to the proceeds after it has been acquired. That is hopelessly loose and impossible as a basis for currency issue. You will observe further on the bill provides that the character of paper that shall be the basis of currency issue shall be the character of paper that is subject to rediscount. In other words, when you define what is the subject of rediscount you define under this bill what is the basis of a currency issue. Commercial paper, according to European usage, is only that kind of paper that represents an actual transaction in the purchase and sale of merchandise. In other words, if A sells a bill of goods to B and draws on B for the price of that bill of goods and B accepts

that draft, that is a commercial transaction, a legitimate commercial transaction, and presumably in the common course of business that merchandise goes into consumption and the money is paid with which to discharge that bill at maturity.

Senator SHAFROTH. Is that called prime commercial paper?

Mr. UNTERMYER. That is the only kind of commercial paper I know of. I do not know why the bill refers to "prime." I do not know what the difference would be between prime commercial paper and secondary commercial paper. But that is commercial paper, and it is commercial paper because the transaction automatically cancels itself. If currency is issued for that bill, in the common course of business experience the merchandise represented by that bill has gone into consumption, and the acceptor of that bill has gotten back the money with which to pay that bill, and the currency is retired.

The CHAIRMAN. It would take the money out of the pockets of the people and put it back?

Mr. UNTERMYER. So that automatically the currency will retire itself.

Senator REED. That is an acceptance.

Mr. UNTERMYER. You may take it in the form of a note, although we are the only people in the civilized world who do so. That form of obligation is too likely to cover up and confuse the difference between commercial transactions and other transactions. But suppose it is done, and the purchaser gives his note to the seller and the seller cashes it. That represents a commercial transaction. That note, after it goes into the bank in the ordinary course of business, is discharged at maturity out of the proceeds of the sale of the goods for which it was given. That is the reason why commercial paper is considered the highest order of security for currency issue.

We will say that I am a cotton manufacturer and I want to enlarge my factory or to buy a diamond necklace for my wife, or an automobile, or to buy fixed plant, or something that does not go into consumption, and I give my note for it. That is not commercial paper. That note is not going to discharge itself. It does not represent a transaction in merchandise that is intended to go into consumption. It may take me a lifetime to get the money back out of my factory if I use the money for extensions, or if I use it to buy something for my wife there will be no way of automatically discharging that obligation. That is where they have differentiated, in the countries that have used commercial paper as a basis for currency issue, between what is commercial paper and what is not; and that is the reason the use of an acceptance is rather better form than the use of a note. With the use of an acceptance the paper better explains itself. It almost tells its own story as to its character.

Senator HITCHCOCK. You are not speaking now of acceptances given by banks, necessarily, are you?

Mr. UNTERMYER. Acceptances given by banks do not rank as high in other countries as acceptances given by merchants, except for foreign transactions. In a foreign transaction they do not know the merchant so well or the purchaser does not want an obligation that must be enforced in a foreign country, and therefore they take the name of a banking house which is better known or more accessible for purposes of enforcing the obligation as an acceptor. But when you

come to home transactions, a strictly commercial acceptance is on a higher plane than the acceptance of the most reliable banking house.

Senator BRISTOW. How much of the business of our country is done in this form of acceptance that you speak of where a bill of lading is attached to the goods?

Mr. UNTERMYER. I am not speaking of acceptances based on bills of lading to any extent. The merchant can use the acceptance without the bill of lading if the acceptor has credit. There is no bill of lading required. That business will have to develop as it has developed abroad, and for this reason: We will say the merchant to-day has a book of $100,000; that is, he has credits to the extent of $100,000. It is in the form of open book accounts. It is absolutely immovable. He can go to the bank and borrow. He explains that he owns these book accounts that are owing him, but he has nothing liquid on which to borrow. If we would adopt the form of acceptance that is prevalent in other countries, he would have something liquid.

Senator HITCHCOCK. Would not that tend to concentrate all the business near the source of supply of the goods purchased?

Mr. UNTERMYER. I should say not. The country would know that instead of buying goods on open account at 90 days he accepts at 90.

Senator HITCHCOCK. Let me give you an instance. Suppose a merchant out in my section of the country buys a bill of goods and it is shipped to him and he pays cash for it. In order to get the discount and in order to get the cash he puts the note in the local bank. Under the new system, when the goods are shipped to him, the eastern manufacturer or merchant would draw upon him. He could accept it and the eastern manufacturer would then deposit that acceptance in the eastern bank where he does business?

Mr. UNTERMYER. Yes; that is right.

Senator HITCHCOCK. Would not that tend, therefore, to concentrate the banking business, instead of allowing it to be local as it is now?

Mr. UNTERMYER. I think not, and for this reason: The man who pays cash would continue to discount his notes. It is the man who wants the credit and gets the credit whose credit would be converted into a liquid thing instead of being immovable.

Senator BRISTOW. Yes; but, Mr. Untermyer, the local bank which has been loaning the money to this merchant to discount his bills would no longer loan him the money, and Senator Hitchcock says the bank where the wholesale house is located would do business and the local merchant would have to meet the payment. He could not go to his local bank and have it extended if collections had not come in, as he does now.

Mr. UNTERMYER. But when he wants to buy for cash there is not any acceptance, anyway; then it is a sight acceptance.

Senator BRISTOW. But the note he gives to get the cash with which to discount his bills you are discrediting here by refusing it to be discounted as commercial paper.

Mr. UNTERMYER. I have not said it should not be discounted; but I have said it would release a vast amount of immovable unliquid assets in business in the form of open accounts. You can not do anything with an open account. If you could get for that open account a form of obligation on which you could issue currency and banking liquid and merchants could get along with less capital.

Senator BRISTOW. Do I understand that you want to revolutionize the whole of the commercial customs that have grown up between wholesaler and retailer, and make them carry their accounts in a different way, by this legislation?

Mr. UNTERMYER. No; you can not revolutionize these things of a sudden, but you can improve them, and I say if this acceptance is liquid and can be rediscounted in this way, you will help the business of the country by enabling the merchants to do business on less capital.

Senator BRISTOW. That is, you would require the wholesaler to change his methods of business?

Mr. UNTERMYER. I would not do anything of the kind. I would give him an opportunity to change it, because he would have a liquid asset. He does not need to change, but he would be given the opportunity to make the most out of his assets.

Senator SHAFROTH. Because it would be to his own advantage?

Mr. UNTERMYER. Yes, sir.

Senator REED. Are you through, Senator Bristow?

Senator BRISTOW. Yes.

Senator REED. I want to follow that. Over in Europe, where we seem to be going for all our light and inspiration in regard to this bill, they do have the system of acceptances thoroughly established. Is not that so?

Mr. UNTERMYER. Yes, sir.

Senator REED. And it is a common thing over there if a country merchant sells a farmer a bill of goods upon credit to take his acceptance—it may only be $50—and then to take that acceptance and put it into the bank?

Mr. UNTERMYER. I believe that is so, Senator.

Senator REED. We had a system of acceptance once in this country, did we not?

Mr. UNTERMYER. Yes.

Senator REED. And the American citizen simply refused, to use a slang phrase, to "stand for it" any longer, did he not?

Mr. UNTERMYER. I do not think so.

Senator REED. Is not this true, that if you would ask a farmer—possibly you have not had much direct contact with them—but the ordinary farmer, out in the State of Kansas, we will say, where they are pretty independent, would be asked by his merchant for an acceptance for a bill of goods. That farmer would say, "Well, my credit is not good. I will just go some place else."

Mr. UNTERMYER. The taking of an acceptance is giving him credit.

Senator REED. I can say to you now, as far as that class of people is concerned, that it is my opinion, that if you would ask him for an acceptance or a note, or anything else except simply to extend the credit, that he would go out of your store in a minute.

Mr. UNTERMYER. That may be so, until you establish a different custom. Of course, when you ask a farmer for an acceptance and he gives it, you are giving him credit; but leaving that out of the question for a moment——

Senator REED. I am trying to get some idea, Mr. Untermyer, of the practicability of this plan.

Mr. UNTERMYER. The plan does not involve that, at all. It involves simply that you should know—you must know—what is commercial paper.

Senator REED. We are of one mind on that; but speaking of the question of acceptance as a matter of distinguishing: Do you not think this is also true, that if the small country merchant, always accustomed to buy his goods upon 30, 60, or 90 days' time, or open account, with the right to discount his bills upon payment of cash, is to be asked by the traveling man representing a house to sign an acceptance, he would transfer his account mighty quick to some other house that did not have that system?

Mr. UNTERMYER. That depends on whether he would make more money by the one method of doing business than by the other. It depends on how this new system would work out.

Senator REED. My own judgment about it is that if you take the ordinary country merchant and undertake to change this system you would find very grave difficulty.

Mr. UNTERMYER. I am not asking that you change the system.

Senator REED. You are assuming, however, for the purposes of this present discussion, that an acceptance is the desirable form and that it is one means of determining whether you have really a commercial paper.

Mr. UNTERMYER. I think everybody will agree that it is the more desirable.

Senator REED. I think maybe from some standpoints, possibly not from others. Bur the point we have got to meet, as framers of this bill is to make a bill that will fit the present conditions of this country. We can not inaugurate a system that must work for a number of years until new methods of business have been devised or forced. Of course you would not be in favor of forcing it?

Mr. UNTERMYER. No.

Senator REED. Therefore, it must be a matter of development; and as our country has been developing in the other direction, away from acceptances which used to be common and which no longer are indulged in to any great extent, if you are going to take that as the test of what is commercial paper—it seems to me we would be doing something in this bill that would be impracticable.

Mr. UNTERMYER. I do not think that I have given the impression—I certainly have not so intended—that that is the only test of what is commercial paper.

Senator REED. Oh, I know; but I am speaking about that one test. I am not trying to contradict you, not at all. I am trying to direct your thought to a particular phase of this thing and get your opinion, which I value very highly. I want to see if I am beclouded about another matter. You spoke about acceptances, and let us assume that we have them necessarily representing commercial transactions where the transaction itself would discharge the bill of acceptance. I can readily understand that would be true in this sort of case: We ship 100 bales of cotton to Liverpool, England. I make a sight draft, or I make a draft for the money that is payable 20 days or 60 days from date. The bank over there, or my customer, accepts that, and that cotton will be turned into money and will pay that off and discharge it. Of course in that transaction there is no guarantee that the money derived from the cotton will ever be sent

back to me. It might be diverted to other places unless there is a bill of lading attached. Would you advise requiring a bill of lading to be attached?

Mr. UNTERMYER. Not at all, because in the ordinary course of business, judged by human experience, that cotton is going into consumption, and somebody is going to pay the acceptor of that bill for that cotton. He is going to get paid in some way for that cotton.

Senator REED. But what we have to rely upon, then, is the credit?

Mr. UNTERMYER. The current course of business.

Senator REED. The ability of the man to pay, and as these things are speedily realized upon, in the grand aggregate, there would be a flood of money flowing in substantially equal to the outgo?

Mr. UNTERMYER. You have got to judge those transactions by the sum total and average of human experience.

Senator REED. Let us see if an acceptance necessarily means that the thing which has been purchased and which is represented by the acceptance is going to be turned into cash.

Mr. UNTERMYER. Not necessarily.

Senator REED. I am going to take your automobile illustration. You are an automobile dealer. You sell me an automobile. I give you my acceptance. It was a commercial transaction. But it is a commercial transaction which represents, so far as I am concerned, a continuous outlay thereafter. That is true, is it not?

Mr. UNTERMYER. Yes; but I do not consider that a commercial transaction.

Senator REED. There is a multitude of transactions, then, which might be represented by an acceptance which would not be commercial within the meaning of the term as you use it, namely, there would be no means of repayment out of the proceeds?

Mr. UNTERMYER. Did you understand that I assumed that everything that was represented by an acceptance was a commercial transaction?

Senator REED. No.

Mr. UNTERMYER. No; not at all. I think it is a somewhat easier way of reading the transaction from the face of the paper, but in the the two instances I named I suggested, I made it clear, that an acceptance could represent a commercial transaction and could represent something that was not a commercial transaction.

Senator REED. I so understood you. That brings us to this point: An acceptance may represent a commercial transaction, as you used the term, and it may represent any other kind of a transaction. So that when a man comes to a bank with an acceptance, or that bank carries that acceptance to another bank for rediscount, the fact that it is an acceptance does not determine at all whether it is commercial paper within the term as you employ it.

Mr. UNTERMYER. No; but it does determine that it is a transaction, while if, for instance, you are in the manufacturing business and you sit down and write your note to get capital to put into your business, you go to the bank and get the money on that note. That, you know, is not a commercial transaction.

Senator NELSON. Will you allow me to ask a question bearing on that, Senator Reed?

Senator REED. May I ask one further question, because it is attached to what has been said?

But suppose that I am a manufacturer and I want capital to put into my business. For instance, I buy 100 tons of steel that I am going to put into the walls of my factory. I can give an acceptance for that, can I not?

Mr. UNTERMYER. Yes, sir. That would show the transaction; but if you bought the steel and went to borrow money on your note in the bank and that note was presented to the reserve bank, that would not show any commercial transaction, would it? It would show that you had gotten the money to put generally into your business where your business needs it.

Senator REED. In that case, having gotten it from the bank, it would show; but there would be no reason why I could not go and get money from B, not a banker, and give him an acceptance instead of a note, and take that acceptance and put it into the bank, and it would be nothing but a loan.

Mr. UNTERMYER. Who would be the drawer in that instance?

Senator REED. Why, I would make my draft upon this man.

Mr. UNTERMYER. Then it would be your draft, and he would accept.

Senator REED. Yes; and I would take that and put it into the bank.

Mr. UNTERMYER. What would he get for this acceptance?

Senator REED. He would be lending me this money and probably taking my note for it. What I am trying to get at is whether it could not easily be used to cover transactions in two ways?

Mr. UNTERMYER. Not so easily as by the present system.

Senator REED. First, I will go back to my factory illustration. I give an acceptance, and I find too that acceptances are prime commercial paper in banks, upon which I can borrow all the money I want, because the bank can take it and use it to have money issued upon it. Thereupon, desiring to borrow $10,000 from the bank, the bank says, "Bring me a good acceptance and I will let you have it." And I say, "Well, my friend, Untermyer, I want to borrow $10,000. I will give you my note," and you accept my draft. I take that over to the bank and get the money. How long do you think it would be before we would have a plan like that worked out?

Mr. UNTERMYER. It could not work very well. It has not worked in other countries, and it would not work here. In the first place, the people who deal in that sort of paper know pretty well the character of the transaction. The first thing that would occur to them would be, What is your business, and what is mine? On what account have I probably given that acceptance? Have I sold merchandise? Am I in a business that deals with and has relations with transactions of that character? Is this legitimate paper, or is it an accommodation acceptance? That is one reason why I think you should have 12 reserve banks instead of 4 or 5. The directors of those 12 reserve banks will be in closer contact with the business of their member banks and will know something about the relations of the customers to their banks.

Senator REED. It comes back, then, not to the form of the instrument, but to the knowledge which the banks have of the transaction and the purpose of the transaction?

Mr. UNTERMYER. Not so much so as one would say at first thought, Senator Reed, for this reason: If you are going to use a promissory note, made in the ordinary course of business, on which to get

money from the bank, there is no outward indication from which to determine whether that represents an actual transaction in the purchase and sale of merchandise. A man may use a note for commercial paper, or the proceeds of it, or he may not. It does not on its face represent a purchase or sale of a commodity. It may be that it will work out that it did represent a purchase or sale, but in the other case you read on the face of the transaction more of it than you do in this one.

Senator REED. Possibly you might, but now you speak about limiting this to commercial transactions. What are you going to do with a case of this kind? I am a wholesale merchant and I buy $1,000,000 worth of goods. I buy them upon credit, and I give my promissory note to the manufacturer. By virtue of your knowledge of the man who made the note, of his dealings with the payee, you would know as a banker that it did represent a purchase, just as much as you would if you had an acceptance, would you not?

Mr. UNTERMYER. Yes; that is just as legitimate a form as the other.

Senator REED. The reason is that that good paper depends not upon the form but upon the fact that it is a transaction which pays itself out. But now it does not pay itself out; I have got the million dollars of goods upon my shelves and have not been able to sell more than $500,000 worth of them, when the note to the manufacturer is due. Thereupon I go down to my local bank and I borrow $500,000 to pay the manufacturer, and my local bank now has a note which represents an actual commercial transaction and a note which can be discharged by the sale of those goods, just the same as it could in the first instance. That is true, is it not?

Mr. UNTERMYER. Except that the second transaction does not represent what is defined as a commercial transaction.

Senator REED. Well, it is the obligation of a commercial transaction, for I took that money and paid it in.

Mr. UNTERMYER. But you are borrowing money now to carry that first transaction.

Senator REED. Yes. Then I take those goods and sell them to A, B, and C and they give me their promissory notes and when those notes mature they have sold the goods and got the money, they have paid me and I have paid the bank, and that ends the transaction. I may be dull, but I am unable to see why that is not just as much of a commercial transaction as the other.

Mr. UNTERMYER. Because, in the first instance, the obligation represents an actual exchange of merchandise. In the second instance it does not represent an actual exchange of merchandise. It turns out from your illustration, with all the premises assumed that they had the money with which to pay those bills, and so it would be if a man had his money in the bank and just took it out of that fund. You must have a general rule to define a commercial transaction, and there is but one rule that defines it, and that is that it represents a transaction of commerce—a trade, an exchange, a purchase, or sale of a commodity, of a salable commodity intended for resale or consumption.

Senator REED. And when the sale has once been made there can be no money borrowed to carry it through to its completion, its fruition. That would be a commercial transaction? Is that your definition?

Mr. UNTERMYER. No.

Senator REED. Of course, you said a moment ago that I had assumed a lot of premises; but the premise I assumed was that of the ordinary everyday business that appears in the form of millions of transactions in this country every year.

Mr. UNTERMYER. If you have goods on your shelves and you want to carry them, and you borrow money from your bank for the purpose of carrying those goods until you can sell them, that does not answer the definition of a commercial transaction, any more than if you borrow that money to put machinery into your factory.

Senator REED. You exclude that sort of paper that we have just been talking about, that you just defined, borrowing from the bank to carry a transaction.

Mr. UNTERMYER. As a basis of currency issue?

Senator REED. Yes.

Mr. UNTERMYER. I do not see how it could be made except to a very limited extent the basis of a currency issue. What I said was this, that it did not come within the definition of commercial paper. The European banks do not entirely exclude it. For instance, the the Bank of Germany and the Bank of France lend on merchandise up to a limited extent, on merchandise in warehouses. They lend upon it, but they do not call that commercial paper.

Senator REED. Just to the extent that you did limit the ability of the merchant to go to his local bank and get its help, you limit his ability to buy from a wholesaler, do you not?

Mr. UNTERMYER. No, I do not limit his ability to go to his local bank. There is no idea of limiting that. You could not do business without it.

Senator REED. Let us see if you do not necessarily limit it. You have now two classes of paper. One of these is an acceptance representing the transaction between the merchant and the manufacturer?

Mr. UNTERMYER. Yes.

Senator REED. That class of paper is so good that money can be issued upon it, just as is stated with absolute frankness. Therefore that class of paper would be in demand by banks more than any other class, would it not?

Mr. UNTERMYER. Yes.

Senator REED. You propose to create a system here by which banks are to get money, and they can get it only upon that class of paper?

Mr. UNTERMYER. They can also get it upon a note made by a man who is buying goods indorsed by the man who receives the note for the goods, and that is a commercial transaction in the present form of promissory notes.

Senator NELSON. I think, Senator Reed, you confused so-called bills of exchange and promissory notes.

Senator REED. Yes; possibly.

Senator NELSON. If you will allow me to draw out the question here in connection with what you say, it will appear.

We have two kinds of bills of exchange, commercial bills and finance bills?

Mr. UNTERMYER. Yes, sir.

Senator NELSON. A finance bill is drawn upon what we call an acceptance house?

Mr. UNTERMYER. Yes.

Senator NELSON. Who accept it and give it credit?

Mr. UNTERMYER. That is right.

Senator NELSON. A commercial bill is a bill drawn accompanying the bill of lading for the commodity?

Mr. UNTERMYER. Not necessarily drawn accompanying the bill of lading for the commodity, but it is drawn for a commodity and accepted by the merchant who gets the commodity.

Senator NELSON. Yes. That commodity is shipped, and the bill is supposed to be for the goods.

Mr. UNTERMYER. Yes, sir.

Senator NELSON. That is a commercial bill?

Mr. UNTERMYER. Yes, sir.

Senator NELSON. In the panic of 1907 the City Bank upon commercial bills of cotton and wheat and flour imported over $90,000,000 of gold?

Mr. UNTERMYER. I do not know as to that.

Senator NELSON. Is not that a matter of history?

Mr. UNTERMYER. I have heard it so stated.

Senator NELSON. When you come to promissory notes, you can not have anything in the nature or in the form of a commercial bill; you can only have it in the shape of signers, the men who sign the notes, but you can secure it by chattel mortgage, as a commercial bill of lading drawn against the shipment of goods.

Mr. UNTERMYER. It is not in the form of a commercial bill against documents, but of course it is a commercial bill.

Senator NELSON. It is a commercial paper, all the same?

Mr. UNTERMYER. Yes, sir.

Senator NELSON. You confused the two. A promissory note may be a commercial paper in that sense. It is a paper arising out of trade, but it is not commercial paper in the sense of a bill of exchange as it is drawn against shipments of goods.

Mr. UNTERMYER. No; it is a commercial bill as distinguished from a commercial bill with documents attached.

Senator REED. Of course, Mr. Untermyer has already said that he did not propose to require the attachment of the bill of lading to the warehouse receipt, so that we are left more or less to the form.

Mr. UNTERMYER. Yes; Senator Nelson's description of the distinction is very precise.

Senator NELSON. If you will allow me, Senator Reed, a commercial bill is like this: For instance, the millers at Minneapolis ship a lot of flour to Liverpool. They draw a bill of exchange against that flour and get that bill discounted. The acceptor pays it out of the proceeds of the flour. That is a commercial bill of exchange, and it is the best kind of paper there is in the world, because it is drawn against a necessity of life, and that necessity—that shipment of goods—pays for the bill.

Mr. UNTERMYER. That goes into consumption, and the bill discharges itself.

Senator REED. I think we understand that particular fact. Can you go back to my question, Mr. Stenographer, at the time that Senator Nelson began to ask questions?

(The stenographer read the question referred to by Senator Reed, as follows:)

You propose to create a system here by which banks are to get money, and they can get it only upon that class of paper?

Senator REED. You have got a system now by which banks can issue money based upon acceptances. I will use that for the mere sake of shortening the question. You say acceptances. It would necessarily follow, would it not, that acceptances would have a utility that ordinarily promissory notes would not have?

Mr. UNTERMYER. Yes; the class of acceptances to which Senator Nelson refers would have a utility and are of a higher order than the ordinary promissory notes.

Senator REED. Would not the result of that be just as Senator Hitchcock indicated, to force the commercial world to insist upon acceptances?

Mr. UNTERMYER. Not necessarily.

Senator REED. Would not that be the inevitable tendency?

Mr. UNTERMYER. I think that would be the tendency and that would be the natural growth and that would be a blessing to the country, because it would release this vast amount of immovable book accounts.

Senator REED. If that is true, then why was not Senator Hitchcock absolutely correct when he indicated by his question that instead of the merchant going to his local banker, as he does now, and securing money from him to discount the bills and transacting the business at home, the wholesale house having begun to exact acceptances, would put those acceptances in their banks in the home cities and thus transfer that portion of the business from the country banks to the great metropolitan institutions where the factories are situated.

Mr. UNTERMYER. Because the home merchant, in like manner, in selling his goods, would get some evidence of debt which he would put in his bank, and his bank would give him the money in that way instead of on his note; instead of saying to the home bank, "I have so much in open account," he would say to the home bank, "Here, I have got so much representing sales I have made."

Senator REED. That implies, then, the extension of this system clear up until you finally reach the farmer, who, instead of buying his goods upon credit, must sign an acceptance?

Mr. UNTERMYER. But that is the same credit; he is buying them on the same credit. He is not getting less credit; he is probably getting more.

Senator REED. Is there not a great deal of difference in the practical application, in the first place, of these two men, one of whom has been dealing with his merchant and has been carried along in an open account, and every once in a while when he sells a load of hogs or a carload of cattle he comes in and squares up, and another man who has got an acceptance in the bank and he must meet it at a given time?

Mr. UNTERMYER. It is the best thing that could happen to the country merchant.

Senator REED. I am not speaking of the country merchant, but about the ultimate consumer.

Mr. UNTERMYER. But it does not hurt the farmer, because if he is going to get six months' time to pay up he will get six months' time in the form of an acceptance.

Senator REED. Let us see if it really does not hurt him, now, in practical operation. I am not talking about the hurt in dollars and

cent; but I say, again, is there not a great difference between the farmer who knows that the merchant is extending him a credit and to whom he owes an account that he expects to pay within reasonable limits, but there is not absolutely any fixed date, and he goes in and pays it at his convenience, and that farmer who has signed an acceptance, that comes due on a certain date, and that acceptance has gone into the local bank, and the local bank has sent it on up to a reserve bank so that when that day comes around he must have that money; is there not a big difference in the two men?

Mr. UNTERMYER. In the first place——

Senator REED. Maybe you never owed a grocery bill. I have.

Mr. UNTERMYER. I decline to commit myself. [Laughter.]

Senator REED. Every man has a right to his constitutional privilege [Laughter.]

Mr. UNTERMYER. In the first place it does not follow that every bill from a country merchant is going to be represented by an acceptance, any more than that is so in other countries. In the next place when the merchant goes——

Senator REED. Then would you understand that that is not the system followed?

Mr. UNTERMYER. No; it does not follow at all, because in any system there is a certain proportion of goods to be canceled in the way of open accounts, everywhere, and it does not follow that every transaction is going to be represented by an acceptance; but at present the local merchant goes to his bank and borrows money, and he tells his bank, "I have so much invested in my business and so much in accounts." He can not borrow up to the limit of these accounts, for every dollar he has invested or anything approaching such a limit; he can borrow only a certain proportion in that way. If he had half his sales that are now in book accounts represented by documents, he could get more money than he could get to-day.

Senator REED. That might be a great misfortune to him.

Mr. UNTERMYER. It is a kind of misfortune we are trying to provide for by this bill. It is the kind of misfortune that gives the people money to do business. But if we can come back to this discussion, the point we are discussing is this: Here is a bill that provides that reserve banks may rediscount certain kinds of paper which nobody can possibly contend is commercial paper.

Senator REED. I think you are right about that.

Mr. UNTERMYER. That is the point. It is not a question of criticizing every other system, but of finding some way to make this work.

Senator REED. You want to confine it to this limited class. You would like to have a phraseology that would limit the issues of money to commercial bills, as you define them?

Mr. UNTERMYER. Not entirely. There has been a great hue and cry since this discussion has been on about the supposed danger of issuing currency against cotton, grain, etc. There was some suggestion when this bill was in the House that it should be so amended that currency could be issued against cotton and grain in responsible warehouses. The unfounded criticism was made that it would be revolutionary and that it was reckless finance to permit a certain fixed amount of currency to be issued for cotton and grain in warehouses that is to go into consumption within a limited course of time. There has been, however, no hue and cry about, but a general acqui-

esence in, the proposition in the bill to issue currency based upon pretty much everything else on earth that is not anything like as liquid or as legitimate a subject of currency issue as cotton and grain evidenced by warehouse receipts.

Senator REED. Yes, I thought I had here a mark, but I see I have got the wrong copy. The very thing that you are talking about now I underscored to call attention to it when my mind was directed to it; but I want to ask this further question, I know the language is loose: If we were to limit the issuance of money upon the kind of security we have been just discussing, can you tell me what per cent there is of the present $8,000,000,000 of bank loans that is represented by that class of paper which you denominate commercial paper?

Mr. UNTERMYER. I do not know.

Senator REED. It is very small?

Mr. UNTERMYER. I should not say so. I should say it is quite considerable, when we exclude the financial transaction on the stock exchange. Of the balance, I should say it was very considerable. At the outset of this discussion I suggested that the Federal reserve banks should not be restricted entirely to the rediscount of paper that would be the basis of currency issue. We are talking about what might be the basis of currency issue. As the bill now stands, they can only rediscount paper that will be the basis of currency issue. If you make the basis of currency issue any note or bill of exchange drawn for agricultural, industrial, or commercial purposes, or the proceeds of which may be used for that purpose, it will not take very long before the permanent currency issue in the country will be such that we will be stranded. You will not be able to issue any more money.

Senator REED. That phraseology is no limitation at all, is it?

Mr. UNTERMYER. I should say not. I should say it was an invitation to inflation, but it is a mere question of phraseology after all. It is not fundamental. I mean I do not believe that the framers of the bill intended to put it in that way.

Senator REED. You think, as a lawyer, under that bill, within the provisions of that bill the door would be open so wide that almost any kind of paper would be admitted?

Mr. UNTERMYER. Yes; I think that in the end the Government would find that it had issued currency for permanent improvements and for the purchase of land and for a lot of things, of a nature that could not come back, and that that currency the local banks would have to keep on rediscounting and renewing, and you would have the door closed to the issue of legitimate paper in times of need.

The CHAIRMAN. It would convert what was intended as an elastic currency into a permanent currency?

Mr. UNTERMYER. Yes.

Senator BRISTOW. Are you through, Senator Reed?

Senator REED. Yes.

Senator BRISTOW. There was a question or two I wanted to ask Mr. Untermyer before he went away. Speaking of these acceptances which the local merchant would ultimately have to take in order to change this system which has been suggested by Mr. Untermyer, as was brought out by Senator Reed, it would change the present local method of doing business so that when the farmer bought his bill of goods, instead of having a running account he would give an acceptance, and that acceptance would go into the bank and that would

be due, and of course it would have to be paid or it would not be renewed?

Mr. UNTERMYER. It would probably be renewed. The local banks do not expect to have all their assets liquid. They only expect to have a certain proportion of them liquid.

Senator BRISTOW. That would have to be renewed, we will say. Of course, this would be a great inconvenience to the farmer, as you will understand, because he is accustomed to having a running account and paying his bills when, as Senator Reed says, he sells his hogs or his wheat or his cattle, and he holds his wheat until he has got a better market. He does not have to meet it to-day or next week. When he does, it is to his interest to dispose of his assets, and he gives this acceptance and it has to be met. He goes to the bank and he wants to hold his crop a little longer, and he gives his note, pays it by a note instead of by cash. Wherein is that liquid then, any more than any other note that is renewed?

Mr. UNTERMYER. He gives his note instead of giving this acceptance?

Senator BRISTOW. Instead of giving cash he pays in a note. Wherein is that acceptance any more liquid than if he had given a note in the first instance and renewed it?

Mr. UNTERMYER. You are assuming that he has given no acceptance at all.

Senator BRISTOW. No; that he gives an acceptance and it was due in 90 days.

Mr. UNTERMYER. If people are going to pay their debts in notes, you will not have much of a financial system based on that.

Senator BRISTOW. That is just why I say if the customer has not the money when the acceptance is due.

Mr. UNTERMYER. Then the bank has to take up that acceptance and carry that farmer.

Senator BRISTOW. The farmer comes in and he has not sold his crop yet, or his hogs, or it may not be matured, so he gives the bank a note to pay this account that is due, and the bank does that instead of forcing him to sell on probably a low margin. Wherein is that acceptance in this commercial transaction any more liquid than a note in the first place would have been?

Mr. UNTERMYER. Because the bank has had the benefit of that acceptance during all that time and has had the money out of it. He has to pay it back at some time, and the bank has had the money meantime.

Senator BRISTOW. How is that, when there was no money paid? It was simply a credit.

Mr. UNTERMYER. As I understand it, the merchant took the farmer's acceptance and drew on the farmer for the amount of that bill.

Senator BRISTOW. And he accepted it, due in 60 or 90 days?

Mr. UNTERMYER. And the bank took that to the reserve bank and got the money on it. It has had that money meantime, and if the farmer can not pay, the bank can get a new acceptance from the farmer and put that in the reserve bank and take up the old one, or it can withdraw that acceptance and carry the farmer.

Senator BRISTOW. It can either take a new acceptance or a note, as it pleases?

Mr. UNTERMYER. It seems to me we have given rather undue weight to this question of whether there shall be a note or an acceptance or an open account. The whole basis of the discussion is as to the character of paper for which currency shall be issued.

Senator BRISTOW. Yes.

Mr. UNTERMYER. It does not involve any such revolution in systems of doing business as we are discussing, because I quite appreciate that you can not bring about that sort of a revolution overnight, but it would gradually lead, in my opinion, to replacing to some extent the present method.

Senator BRISTOW. The custom now is that the farmer or the citizen, whoever he is—I will speak of the farmer, because he does carry an account, as a rule. He carries it with the local merchant. His wheat may have failed and he will wait for his corn crop to come on, or some later crop, or the merchant may have so many of these accounts, it being a dull year, business is slow, and so he carries him along. He goes to the bank and states the situation to his banker, which the banker knows quite as well as the merchant does, and he gives his note for money to meet his bills and extends the credit to his customer a little longer, and the banker helps him out. That is his business. That is what he is in business for. The note which the merchant gives to the bank you would bar as not fit upon which to base a currency, but if that had been in the form of an acceptance from this farmer, and then a renewed acceptance 90 days later, you would give it in that form the credit of being made the basis of currency?

Mr. UNTERMYER. I have not said that I would bar the note, but I have said the acceptance method offers the best way of reading more of a transaction on the face of the document. But apart from that we will assume that the merchant is giving the farmer a 12 months' credit under the present system. If he wanted to change the system, he might still give him 12 months' credit, and, if you please, he can take the 12 months' acceptance; and the bank that now gives him credit, knowing that he would not be able to pay for a year, would give him the same credit that it had before; that when that acceptance got to within 90 days of its maturity that bank would have something upon which it could get some money, whereas it would have to wait the whole 12 months under the other plan. It would always have this maturing paper. The substitution of the new system, while not interfering with the farmer's term of credit, would give the bank the opportunity of using its capital more frequently and more liberally than it does at present.

Senator BRISTOW. Of course I think that if you lived in the country, as we do, you would not entertain any such opinions at all as to the feasibility of such a proposition.

Mr. UNTERMYER. It is not an essential part of anything I have said.

Senator BRISTOW. I think you would abandon that just as readily as I would refuse to accept any such a theory and undertake to go before my constituents with it, as it would be very short lived.

Mr. UNTERMYER. Why is it that it works so well in other countries?

Senator BRISTOW. I do not know why it works so well in other countries. Unfortunately, I am not very extensively informed as to what they do in other countries; but I know what our people do and

what they will not do, and you could not put any such a proposition through at this time in this country.

Mr. UNTERMYER. I do not think we have any such proposition. I have not suggested any such proposition.

Senator BRISTOW. I understood that you had.

Mr. UNTERMYER. What I said was that it would facilitate transactions of this kind and it is bound to come under this system.

Senator BRISTOW. If that is true and the people understand that that is bound to come under this system, this system will never go through.

Mr. UNTERMYER. It is in their interest that it should come.

Senator BRISTOW. That would be for you to convince them of. I would a good deal rather that you undertook to do that than that I should undertake to do it myself, though.

Again, you say that you think that a limited amount of cotton-warehouse receipts or grain-warehouse receipts would be all right, and I am not going to controvert that point with you.

Mr. UNTERMYER. That is not a new proposition, because there again the much-despised experience of the older nations is a guide to us, whether we like it or whether we do not.

Senator BRISTOW. In times past those who have suggested that a currency might be issued on warehouse receipts of grain have been very much ridiculed.

Mr. UNTERMYER. You do not think they ought to be, do you?

Senator BRISTOW. I think that the grain in the bin is a better security if it is put up than the note of the man who has the grain, because the man may sell his grain and not pay his note. If the grain is made the security, he can not sell it, and the one who has got the note has got the grain and the man both. It is better than his note, now, for any purposes. If the grain in the bin is good security in connection with a man's note—and I think it is better than the man's note—why is not the farm upon which the grain is produced a still better security than the grain?

Mr. UNTERMYER. Because that does not convert itself within a limited time. The grain goes into consumption.

Senator BRISTOW. But a mortgage on a farm is a better security than a mortgage on the products of the farm, is it not?

Mr. UNTERMYER. No; if the mortgage is sold, the evidence of debt simply changes hands, and nothing has gone into consumption with which to pay that obligation.

Senator BRISTOW. But the farm is the basis for continual producing, year by year, that which does go into consumption?

Mr. UNTERMYER. So is the merchant's factory the basis upon which he produces his goods; but would you issue currency upon a merchant's factory?

Senator BRISTOW. The factory may burn down; the farm will not.

Mr. UNTERMYER. Then you would not issue it on his land?

Senator BRISTOW. I certainly think that a farm mortgage, a good mortgage properly made, is a better security than any other.

Mr. UNTERMYER. It depends on whether it represents a commercial transaction or not. But I say that a mortgage on the farm is no security for a currency issue.

Senator REED. Are you through, Senator?

Senator BRISTOW. Yes.

Senator REED. I want to ask one question. I have heard all through that this bill shall be so drawn that money should be furnished for commercial transactions. That is a beneficent purpose. Is there any more reason why I should take care of the commercial transaction, transactions between merchants, than the transactions of all of the people?

Mr. UNTERMYER. The transactions in merchandise, as I have frequently said, cancel themselves, pay for themselves in a limited time. Transactions representing fixed property do not. They are permanent investments, while the other is a mere temporary shifting of credits, and the use of them in the course of trade. The currency representing the latter is issued and retired as occasion demands.

Senator REED. You did not catch the point of my question. I understand that you say one will pay off more readily, but I am talking about this thought: I have sat here for two weeks, and I have not heard anybody propose a currency having for its ultimate object the benefit to any class of people except the bankers and the merchants. In drawing a bill ought we not to consider the benefits to the rest of the people?

Mr. UNTERMYER. Who is the rest of the people—the farmer?

Senator REED. Oh, no. You can take the banks out of a community and the merchants out of a community and have left everybody, and they are vastly in the majority, both in numbers and in importance and in usefulness. I do not mean that man for man they are more useful, but in the aggregate they are more useful.

Mr. UNTERMYER. Senator, I understand that we are to have a system of farm credits in this country, which we ought to have, corresponding to the continental systems. That system should be based upon an issue of debentures, taken in small amounts by investors all over the country; that is the ideal way of dealing with that subject. We certainly ought not to make it the basis of a currency issue to any substantial extent, because you would soon get to the end of your tether. You could not call in your farm mortgages every 90 days, and the result would be that the credits would pile up and the notes would pile up until our ability to expand the currency for temporary needs would be gone. I do not mean to imply that a system of financing farm mortgages is not as important as the other. I think it is quite as important, if not more so. But it must be differently dealt with.

Senator REED. I am not talking of inflation. I am talking about this one idea, that everybody's mind must be centered upon the thought that we ought to get a currency system that is a good thing for the banks and we ought to get a banking system that is a good thing for the banks. Incidentially, we ought to benefit the merchant. With both of these ideas I am in hearty accord, but I am just wondering why somebody did not discuss this bill from the standpoint of direct benefits to the rest of the community.

Mr. UNTERMYER. I do not see how you can benefit the merchants of the country without benefiting the rest of the community, and I do not see how you can increase credits and make them more liquid and enlarge the business of the country and furnish the means of doing that business at its full capacity without thereby benefiting every class of the community.

Senator REED. That is the old tariff argument, that if you take care of the manufacturers they will take care of the rest of the country.

Mr. UNTERMYER. No; I am not in sympathy with that old argument. I am a Democrat.

Senator HITCHCOCK. You were unable to give Senator Reed any answer to his question as to what proportion of the $8,000,000,000 of bank loans come within the definition of commercial paper? You are not able to do so?

Mr. UNTERMYER. Certainly not; I have not the remotest idea.

Senator HITCHCOCK. Have you any estimate as to the amount of additional currency which this country requires at any time?

Mr. UNTERMYER. No; I do not think I know enough of the statistics on that subject to be qualified to do anything more than make a wild guess.

Senator HITCHCOCK. Do you think it requires any additional currency, any increase of the volume of currency?

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. On what do you base that, compared with any country in the world?

Mr. UNTERMYER. I base it on the periodical stringency of the market and the inability to get money and the spasmodic way in which discounts move in this country; they are different from that of any other country in the world.

Senator HITCHCOCK. Do you know any country in the world that has the per capita of circulation that we have?

Mr. UNTERMYER. I have not looked at those statistics for a long time, Senator Hitchcock, and I can not state.

Senator HITCHCOCK. I will assume that there is no country in the world that has our volume of circulation per capita.

Senator SHAFROTH. Except France.

Senator HITCHCOCK. France has not.

The CHAIRMAN. France has more. I think it is three times as much, or four times as much.

Senator HITCHCOCK. I would like to see those figures.

The CHAIRMAN. I put them in the record for your information, and you will find them, I think, on page 265.

Senator NELSON. You must remember that the use of taxation in other countries is not as great as in this country.

Mr. UNTERMYER. In England it is more broad than with us.

Senator HITCHCOCK. You believe in a flexible and elastic currency?

Mr. UNTERMYER. Yes, sir.

Senator HITCHCOCK. That is one reason you favor this bill, or something like it?

Mr. UNTERMYER. I favor this bill in its fundamentals.

Senator HITCHCOCK. What degree of fluctuation do you think is necessary? What per cent of fluctuation from maximum to minimum?

Mr. UNTERMYER. I have not gotten down to a study of the figures. Of course it is more the creation of confidence than it is the requirement of additional circulation, after all. The knowledge that credits can be made liquid is one of the things we so much need in this country.

Senator HITCHCOCK. What would be the effect, then, say, within 90 days, of increasing our circulation 10 per cent?

Mr. UNTERMYER. You mean under this bill?

Senator HITCHCOCK. No; any scheme that the country might adopt. What would be the effect of increasing the circulation 10 per cent?

Mr. UNTERMYER. In normal times I do not know that it would have any appreciable effect. It would not be availed of under the bill unless it were needed. At one time more would be required and at another time less.

Senator HITCHCOCK. Would it have any effect on credits?

Mr. UNTERMYER. It would make them more elastic, yes; the knowledge that the credits are there.

Senator HITCHCOCK. Do you think it would have any effect on interest?

Mr. UNTERMYER. I think it would make interest rates cheaper.

Senator HITCHCOCK. Would it have any effect on the stock market?

Mr. UNTERMYER. Under this bill I do not believe the stock market is going to be helped; I think it is going to be hurt temporarily so far as speculation is concerned. All this money is going to be taken out of the stock market. This phase is fully discussed in the report of the Pujo committee and is supported by complete data.

Senator HITCHCOCK. Assuming that the stock market is going to be hurt after the system is once adopted, do you think the prices of the stock market would be affected as the currency inflates or contracts?

Mr. UNTERMYER. No; I do not think the money for speculation will be available.

Senator HITCHCOCK. Do you think the prices will be affected by expanding or contracting this currency?

Mr. UNTERMYER. You mean the prices of merchandise?

Senator HITCHCOCK. Yes.

Mr. UNTERMYER. No.

Senator HITCHCOCK. Generally, the price level of things?

Mr. UNTERMYER. I do not think it will have any effect on the price level of things, except to make business more settled and credits more reliable.

Senator HITCHCOCK. Is it not true that all economic writers attest the fact that to expand the currency expands credits and increases prices, and that a contraction has the effect of contracting currency and depressing prices?

Mr. UNTERMYER. I think it depends on conditions under which the expansion or the contraction takes place. If it is legitimate, and if the expansion is accompanied by sound business and is brought about by expanding business, it does not increase prices. If the expansion is artificially brought about by undue ease with which credits are obtained, it may increase prices.

Senator HITCHCOCK. What would be the effect in this case: Suppose you have seven men that control the rate of interest. Twelve regional banks must pay that money. What possible effect do you think our action might have? Suppose they increase the rate of interest from one-half of 1 per cent up, say, to 5 per cent, what would be the effect on the country?

Mr. UNTERMYER. It would depend on whether the country needed the money so badly that it had to pay the interest. Either jacking the price of interest up or jacking the rate down is not going to have any great effect unless the money is going to be of use. If the money is a drug on the market, if the banks can not utilize it, if business is slack and the merchants do not need it, or if these men stand here and say, "We will let you have money cheap," we will not add to the

inducements of the people to take money. They will take it as the demands of commerce require them to take it.

Senator HITCHCOCK. Is it not true that in Great Britain the sole resource of the Bank of England to increase its supply of gold and maintain prices is——

Mr. UNTERMYER. To bid for money.

Senator HITCHCOCK. To bid for money.

Mr. UNTERMYER. That is only for the purpose of attracting gold.

Senator HITCHCOCK. But is it not a fact that the Bank of England, by simply raising or lowering the rate one-half of 1 per cent, can affect the stock market?

Mr. UNTERMYER. No; not unless conditions warrant.

Senator HITCHCOCK. Does it not actually occur?

Mr. UNTERMYER. It occurs that they do it when conditions warrant. If they did it when conditions did not warrant, nobody would pay any attention to it.

Senator SHAFROTH. World prices have a bad effect on the circulating medium of our country.

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. I want to ask you whether or not you consider it safe to place in the hands of seven men the enormous power to control the interest rate, practically without any limit, for the whole banking community of the United States?

Mr. UNTERMYER. I do not concede that they control the interest rates, and I think that it is perfectly safe to put that power in men whom I believe will be the right kind of men. They are just as likely to be bad if selected by anybody else, and more so.

Senator HITCHCOCK. You say that they do not control the interest rate?

Mr. UNTERMYER. No.

Senator HITCHCOCK. They control the deposit of $250,000,000 of Government funds.

Mr. UNTERMYER. Control it in what way?

Senator HITCHCOCK. They can place it wherever they wish.

Mr. UNTERMYER. No, they can not; under the bill they must place it equitably.

Senator HITCHCOCK. They can place it in reserve banks and take it out of one bank and put it into another bank.

Mr. UNTERMYER. Under the bill they can only place it in equitable distribution.

Senator HITCHCOCK. They will control it.

Mr. UNTERMYER. They control it more now than they will under this bill. It is now controlled by one man under the present system. He can put it wherever he pleases.

Senator HITCHCOCK. They control the deposit of $250,000,000, and can take it out of one depository and put it in another.

Mr. UNTERMYER. But within the limits of the bill; that they must apportion it equitably.

Senator WEEKS. What does "equitably" mean?

Senator HITCHCOCK. I do not care to go on with that, except that it gives the board power over the regional banks. Now, then, it is proposed to issue United States notes without any limit under this bill?

Mr. UNTERMYER. That is right, too.

Senator HITCHCOCK. There may be $500,000,000 or there may be $1,000,000,000.

Mr. UNTERMYER. If they had a limit it would be an incentive to inflation, would it not?

Senator HITCHCOCK. We will say they only issue $700,000,000 to start with. It is only proposed, however, to begin with the retirement of national-bank notes, and when those national-bank notes are retired they will be replaced by United States notes controlled by this board.

Mr. UNTERMYER. $700,000,000.

Senator HITCHCOCK. So that then the whole currency of the country will be under the control of this board, except United States greenbacks and gold certificates.

Mr. UNTERMYER. I do not agree with that.

Senator HITCHCOCK. They control this issue of this $700,000,000?

Mr. UNTERMYER. They can only issue it when it is asked for. They can not simply say, "We are going to issue it." When the reserve bank comes and says, "We have a certain gold reserve, and we have certain security, and we are willing to pay certain rates, that you will fix," then they can issue it; but if the reserve bank does not need the money it is not coming there, and they can only issue in response to demand.

Senator HITCHCOCK. I think it is for the member banks to decide in all cases whether they need the money. They can refuse to issue it?

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. They can make hard times by refusing to issue it?

Mr. UNTERMYER. I do not agree with you about that.

Senator HITCHCOCK. Can they not cause contraction by refusing issuance.

Mr. UNTERMYER. They can produce absence of further expansion.

Senator HITCHCOCK. So that in the hands of these seven men you propose to place the power largely to control the commerce of the country and control the prices of the country by giving them control of the interest rate?

Mr. UNTERMYER. I do not agree. I think that is a very——

Senator POMERENE. Do you mean that a bank can close its doors if it can not pay the rate?

Mr. UNTERMYER. It is a violent assumption to say that they have the fixing of the interest rate. If the rate is too high the member bank will not pay the rate. It is only when the member banks can make money and have special need of this currency that they will take it.

Senator HITCHCOCK. Let us assume the rate is excessive and the reserve bank refuses to take it. That limits the power of the reserve bank, and when its member bank applies for discounts it replies, "No; we have no funds."

Mr. UNTERMYER. It is not as much limited as it is to-day.

Senator HITCHCOCK. Please answer my question. That will be the inevitable result; the reserve bank will have to say to the member bank, "No, we have no funds," and the member bank will have to say to its customer, "No, we can not lend you money," and the men

who needed the money to do the busienss of the country on would have to curtail their operations. The man who had the goods to sell will have to curtail his operations, and the men who had the corn to sell will have to curtail their operations, likewise the man who had the cotton to sell; and the men who had live stock would be compelled to market their stuff, because they could not carry it.

Mr. UNTERMYER. Yes; but not to anything like the extent to which they are obliged to do to-day. If you take all your premises and apply them to those conditions you will find that even assuming all you say, conditions are better under this bill than they would be to-day because to-day if the member banks have to refuse customers, they can not go and get back part of the reserves from their reserve banks and in that way increase their facilities and loan money to their customers; they have to stop. If there was not another dollar of currency issued under this bill the system would be better than it is to-day, far better, because the reserves that are now rigid and that can not be used are put within their grasp, so that the member banks have the use of those reserves.

Senator REED. When they are within their grasp and use they cease to be reserves, do they not?

Mr. UNTERMYER. No, because they are represented by liquid securities in the hands of the reserve bank.

Senator REED. So is every dollar that goes over a bank counter and loaned out on 30, 60, or 90 day paper represented by paper.

Mr. UNTERMYER. The present reserve is largely a humbug.

Senator REED. I agree with that.

Mr. UNTERMYER. A country bank sends on its reserves to New York City. Is that a reserve there for the country bank? Not at all. The New York City bank is allowed to loan out three-fourths of it, is it not?

Senator REED. I understand that that may be something of a——

Mr. UNTERMYER. It is a humbug from beginning to end.

Senator REED. I do not call it a "humbug."

Mr. UNTERMYER. It is very deceptive and misleading.

Senator REED. I did not intend to interrupt you, Senator Hitchcock.

Senator HITCHCOCK. I was only going on to say, suppose I am a dealer in cattle out West and the bank has been carrying me. I have some cattle and the bank is refused by the reserve bank on the discount of its notes. Then the bank is compelled to call me—the cattle dealer—to pay my paper, and I must market my cattle because these seven men in Washington have raised the rate of interest so high that the reserve bank can not take care of me.

Mr. UNTERMYER. I do not think that that is a fair deduction at all.

Senator HITCHCOCK. That is inevitably the case.

Mr. UNTERMYER. Just at present this cattleman, if his bank has not the money, can not get it either, and the bank can not go anywhere to get it. This will give them a place to go.

Senator HITCHCOCK. Throughout the West you will find banks that are independent—practically independent—of eastern concerns. They have got their own deposits; they are owned in the community; the directors are there; they are not compelled to go to any reserve bank and ask for the discount of paper. If they are not able to

accommodate their own customers, they can go to a hundred different towns and procure discounts.

Mr. UNTERMYER. There is nothing in this bill that stands in their way of continuing to do that.

Senator HITCHCOCK. This bill, however, proposes to take 20 per cent of their capital away from them?

Mr. UNTERMYER. Ten per cent.

Senator HITCHCOCK. It proposes to require them to keep their reserve in a certain place, which they are now permitted to keep elsewhere, and when they have put it in this certain place they will have no claim upon these other banks where they now keep their reserves, and yet you favor a plan under which the individual bank can not of right demand a discount of its notes, and you favor a plan under which seven men here in Washington, the creatures of the President, can absolutely tighten the credits of the country to such an extent as to force property upon the market?

Mr. UNTERMYER. I favor it unreservedly, and I favor it because I believe it is going to make the assets of the country liquid and to give us a scientific system instead of a crude, barbarous system, and I can not see, Senator Hitchcock, the point in the argument that a bank that is independent now will not remain independent. If it is so independent now that it does not need the help of anybody else, it will remain much more so than it is to-day, and you have no right to assume—I can not understand why anybody should assume—in passing upon this bill, that it is going to be unjustly and despotically administered.

Senator HITCHCOCK. Are you not by this bill making it dependent upon the reserve bank?

Mr. UNTERMYER. No.

Senator HITCHCOCK. You make it dependent upon that bank for rediscounts.

Mr. UNTERMYER. On the contrary, I am giving back to that bank the chance to get two-thirds of its reserves back.

Senator HITCHCOCK. You are not giving it to it as a matter of right. It all depends upon the ipse dixit of the men who run the reserve.

Mr. UNTERMYER. It takes nothing away from it that it has as a matter of right now. By this proposition you are adding to the resources of that bank by giving it the privilege—assuming that the bank is going to be honestly managed by its own members, of which this man is one, you are going to give back to this man two-thirds of the reserves that are now put beyond him. You are going to increase the resources of that bank by reducing the requirement of reserve; and then of the now required reserve he gets two-thirds back. You say that formerly he could go and borrow from the bank where he had his reserves. That was not a matter of right either; that was a pure matter of privilege; and if his reserve bank happened to have the money in Wall Street, he would not get it.

Senator HITCHCOCK. But he now has his reserves in a number of different banks, as a rule. If he fails to get the proper accommodations from that bank, he removes his reserves to another bank where he will get accommodations. He not only has in New York City the choice of 30 banks, but he has the choice of three central reserve cities and 48 reserve cities to which to go.

Mr. UNTERMYER. He has to go somewhere.

Senator HITCHCOCK. Under this bill he has only one place to go, and when he goes to that place he gets nothing as a matter of right but only as a matter of favor.

Mr. UNTERMYER. Could you ever make it a matter of right?

Senator HITCHCOCK. I think so. That is one of the discrepancies of this bill. It must be made a matter of right for the individual American banker to go and get what this bill seeks to give him—the privilege—and not leave it optional with somebody else.

Mr. UNTERMYER. How would any system be workable that way? Just consider that for a moment, will you? Here is a reserve bank under the administration of the member banks, of which it is a part. It has participated in electing this board; 6 out of 9 members are its nominees, and there are going to be 12 regional banks; and if every bank joins each regional bank is going to have about 2,000 bank depositors there on an average.

Senator HITCHCOCK. I would go into that, but I think Senator Reed expects to go into this organization of regional kanks for the purpose of developing your idea, and I will not trench on that now.

Mr. UNTERMYER. All that I wanted to say in that connection was that you can not have a system that is so rigid as to say to the reserve bank:

You have got to lend each man two-thirds of his reserves back.

Senator HITCHCOCK. Do you not think——

Mr. UNTERMYER. Somebody might not want the funds and they would be unused. There are times when certain industries require money and others do not. There are some banks with small capital and vast deposits, and others with large capital and small deposits, There are a thousand contingencies that could not be met or anticipated by such a rule. It would destroy any system.

Senator HITCHCOCK. You think then that an individual bank, no matter how well run, should not as a matter of right be able to go to the reserve bank and secure a rediscount?

Mr. UNTERMYER. How much of a rediscount?

Senator HITCHCOCK. My judgment is that the proportion should depend on its capital.

Mr. UNTERMYER. In other words, the reserve bank, according to your idea, would not even be entitled to its pro rata share of the money it puts in in the way of reserve. According to that, if half the banks in a regional bank were willing to avail themselves of that privilege and wanted it, and the other half did not, what would the regional reserve bank do with the other half of the money? If it loaned that other half out, the next day another member bank might come along and say, "We want ours"; it would at other times have to leave a large part of its capital dormant. The capital of a bank is no criterion of its business or needs.

Senator HITCHCOCK. I am opposed to the creation in the banking world of imperialism. I think that the present system is democratic.

Mr. UNTERMYER. I am equally opposed to it and fearful of it, as you know; I think we are so near imperialism now in finance that we are trying to get away from it. This bill is going to try to take us away from it. That is why I am so ardent a champion of it with all its minor defects.

Senator NELSON. Would it not be safer, Mr. Untermyer, to leave these reserve banks to determine upon the amount of currency they wanted, and simply give this board the right to pass upon the securities they offer, and pass upon the commercial paper they wanted the currency on? Would not the regional banks be the best judges of what they wanted in that region?

Mr. UNTERMYER. You mean reserve banks?

Senator NELSON. And as to the amount of currency they needed, and if you left this question to the national reserve board to simply pass upon the quality of the paper they tendered for the currency they wanted, would not that be ample?

Mr. UNTERMYER. You mean to make the issue of currency compulsory on the part of the reserve board?

Senator NELSON. No, I mean let each reserve bank determine how much of this currency they want.

Mr. UNTERMYER. That would make the issue of currency compulsory on the part of the Government, would it not?

Senator NELSON. No, not necessarily.

Mr. UNTERMYER. If the reserve bank determines it wants so much currency——

Senator NELSON. It would not make it compulsory on the part of the Government, because the reserve board would have to determine on the commercial paper they tendered.

Mr. UNTERMYER. Assuming the commercial paper was all right, it would make compulsory on the Government to issue the currency, because these regional reserve banks wanted it?

Senator NELSON. Does not that commercial paper represent the trade and traffic and commerce of the country, and why should there not be currency to represent that business?

Mr. UNTERMYER. Then it does come down to this, does it not, Senator Nelson, that the proposition is that when a regional bank presents a certain amount of good commercial paper that the Government should be compelled to issue currency to it?

Senator NELSON. It indicates that in that region there is that volume of business and traffic represented by that paper, and why should there not be currency to cover that?

Mr. UNTERMYER. I should certainly think it would be rather a dangerous thing to make it compulsory on the Government to issue currency because the paper was forthcoming for the security of that currency. It would simply encourage a riot of expansion in a given region. The reserve bank members would say:

We will go right a head and do all the business we can do, because the Government is bound when we present the paper to issue the currency.

Senator NELSON. Here is another point in connection with this bill which I want to direct your attention to.

Mr. UNTERMYER. I think it would be the worst kind of invitation to inflation.

Senator NELSON. Does not this bill ultimately throw the whole burden of gold redemption on the Federal Government instead of on the banks?

Mr. UNTERMYER. So far as the public is concerned, yes. But as between the reserve banks and the Government, the Government is only a guarantor and the principal debtor is the reserve bank.

Senator NELSON. Let us look at the facts, Mr. Untermyer. The reserve bank may, in place of gold, put in lawful money. That means greenbacks and silver dollars?

Mr. UNTERMYER. I do not agree to that proposition. I think that ought to go out of the bill.

Senator NELSON. That is in the bill. Now, they tender that for redemption. A man comes into the reserve bank and wants the notes redeemed. They tender greenbacks and silver dollars that is good redemption for the banks, but the man who gets the silver dollars and the greenbacks may not be satisfied. He may want the gold and he goes to the Government. So that the ultimate burden of redemption in gold is thrown on the Government under this bill, is it not?

Mr. UNTERMYER. It is if——

Senator NELSON. As it is framed now?

Mr. UNTERMYER. Yes; it is thrown upon the Government in that respect, and in that respect it has seemed as though the words "lawful money" ought to come out of this bill and that the redemption should be absolutely and unqualifiedly in gold.

Senator NELSON. Otherwise the burden is ostensibly assumed by the reserve banks, but is ultimately cast upon the Government?

Mr. UNTERMYER. I do not think there is any question about the justice of that criticism, Senator Nelson.

Senator HITCHCOCK. Mr. Untermyer, there is nothing in the bill, and you would not favor putting anything in the bill, to require the reserve bank to rediscount any amount of paper for any bank?

Mr. UNTERMYER. I would not; I would leave that discretion in the reserve board, because I have confidence in the Government's appointees.

Senator HITCHCOCK. I am talking now about the reserve banks.

Mr. UNTERMYER. Yes; I would not require the reserve bank by any rule to discount for any member.

Senator HITCHCOCK. You would permit it the option of refusing any member any discounts at all?

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. Then, you also favor letting it discount any amount of paper for any member?

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. So that would permit the grossest amount of favoritism to develop?

Mr. UNTERMYER. You are assuming that the member had the necessary collateral, and assuming that these men——

Senator HITCHCOCK. I am assuming that the man presents good collateral.

Mr. UNTERMYER. Assuming that these men, who can be turned out every few years, and three of the six men turned out by the reserve board at any time, are going to be recreant to their duty, then you are quite right. But you have no right to build any system on such an assumption. You can not start anywhere or get anywhere with any sort of legislation on that basis. Is it not true that in testing any system you have got to assume that the people who are going to act under the system are going to act under the law?

Senator HITCHCOCK. They would be entirely within the law.

Mr. UNTERMYER. They would be entirely within the law, and they are going to act conscientiously and they are going to act intelligently.

Senator HITCHCOCK. Then you would not favor putting checks on them?

Mr. UNTERMYER. Why, yes; you put certain checks upon them by this bill.

Senator HITCHCOCK. Where are the checks here?

Mr. UNTERMYER. In the proposition the reserve bank can not lend more than twice the amount of its reserve.

Senator HITCHCOCK. I am talking about the favoritism. What check is there against favoritism?

Mr. UNTERMYER. Oh, I might answer you by asking you what check is there against the United States Supreme Court, or against the Interstate Commerce Commission, or against any public body in any part of the world.

Senator REED. I will undertake to answer that by saying the checks of the Constitution, the checks of the statute; the certainty of impeachment if they deliberately violate the Constitution.

Mr. UNTERMYER. You have got the power of removal here.

Senator REED. You have got the power of removal here, I grant you that, but you have got something else than the power of removal with the Supreme Court. You have got the written law and the precedents of 1,000 years, and above all that and better than all that, you have got a spirit that permeates every part of our population, that the courts must do justice, and they have nearly always done it.

Mr. UNTERMYER. Undoubtedly, but still you have had more judicial legislation in the Supreme Court, and it has all been in the right direction; nobody complains of it.

Senator REED. I do not think the Supreme Court has ever gone very far away from the principles of the Constitution and the old common law of England.

Senator NELSON. Mr. Untermyer, what have you got to say about this feature of the bill, giving this board of seven men authority to compel one regional reserve bank to discount the paper of another reserve bank, whether they are willing to or not?

Mr. UNTERMYER. It is necessary——

Senator NELSON. Take a concrete case, for instance: Suppose New Orleans is the center of a regional reserve bank. They are hard up for money. Suppose this board here at Washington concludes that the reserve board at St. Louis, which is at the head of another regional reserve, ought to help out the New Orleans bank and discount their papers, whether they are willing or not, and suppose that the men managing that St. Louis bank felt as though they needed all their resources to accommodate their regional district. Are you in favor of giving this board here at Washington absolute power to say that at St. Louis they should be compelled to help out the New Orleans banks, whether they are willing or not, whether they felt that the conditions justified it or not to discount the paper of New Orleans?

Mr. UNTERMYER. I certainly am, and the restrictions of this bill, which I think——

Senator NELSON. What are the restrictions? In the first place, are they anything more than mere restrictions?

Mr. UNTERMYER. 1. That a bank must have the unanimous consent of all the members present. 2. There has got to be an emer-

gency. I do not think unanimous consent ought to be needed. There is a great deal to be said on the other side of that proposition. You can not mobilize the reserves of the country in times of emergency without giving that power.

Senator NELSON. Why not leave, Mr. Untermyer, these regional banks in that matter the same as the constituent members of the bank to determine whether they discount the paper or not? The members that compose——

Mr. UNTERMYER. Because you will convert this from a reciprocal cooperative system into a competitive system the first thing you know. I understood that these regional banks were to be pipe-lined in this way for the purpose of being of aid in a comprehensive system.

Senator NELSON. And then you wish Washington here to pipe the funds of St. Louis to New Orleans if they thought proper?

Mr. UNTERMYER. If they were needed there.

Senator NELSON. In the discretion of this board?

Mr. UNTERMYER. Discretion must be lodged somewhere. You can not construct a currency system on a given set of rigid rules. The subject is too complex. Contingencies are bound to arise that can not be foreseen. You must have elasticity. That means discretion lodged somewhere. Senator Nelson, let me suggest this: In the first place, these regional banks are holding Government funds.

Senator NELSON. Yes.

Mr. UNTERMYER. The same result would be accomplished by the Government transferring its funds to where they were needed.

Senator NELSON. Yes.

Mr. UNTERMYER. So that it is dealing practically with its own funds. You can not conceive of a case when any regional bank would require any more money than the Government happens to have on deposit with these different banks.

Senator NELSON. Suppose you limit the bill, then, and say that they could compel it to the extent that the bank had Government funds to rediscount. What about that modification?

Mr. UNTERMYER. I would not be willing to assent to it, so far as my judgment is concerned, because I do not believe that such a scheme is going to be workable. For years the Aldrich bill was extolled because of the fact that it mobilized the reserves, and the only purpose of this provision is to mobilize the reserves. The banks did not object to mobilizing them permanently, so long as they controlled. Why do they object to this simple and temporary mobilization of the funds which leaves them in their localities until the emergency arises, mobilizes them where the emergency exists, and redistributes them in the localities whence they came when the emergency has passed?

Senator NELSON. But there was nothing compulsory about discount or rediscount or about becoming members in that bill. There was nothing compulsory in the whole scheme, either in the way of discount or anything else.

Mr. UNTERMYER. It was compulsory in the sense that it was a scheme for control by the banks, with the power of issue in the banks of the currency of the Nation, a thing that is repugnant to all ideas——

Senator NELSON. Is not this power here vested in this board of seven men?

Mr. UNTERMYER. I beg your pardon.

Senator NELSON. Is not this power here vested in this board of seven men?

Mr. UNTERMYER. The ultimate power to shift reserves by unanimous consent when an emergency arises, yes, but a power that is responsible to the people; these members are responsible to the people. Under the Aldrich system they were not responsible to anybody except their stockholders consisting of the banks, and I think that if it was a good thing to mobilize reserves permanently it ought to be a good thing now to mobilize them temporarily.

Senator NELSON. How could it be responsible here, except in a roundabout way. They are not Government officers; we could not impeach them.

Mr. UNTERMYER. They are responsible to the administration; the administration is responsible to the people for them. Every Government official, I assume, is in some way responsible to the people, and it is incredible, you know, that there should be such a thing as a genuine fear of the abuse of this great power. We can not proceed on any such principle; you could not write any bill on any such principle.

Senator REED. I do not want to interrupt——

Senator BRISTOW. If you are going to follow this up——

Senator REED. Yes. Just by way of introduction, I think the objection to the mobilization scheme of the Aldrich bill was that the people rather concluded that under that system all the money of the country would be mobilized by these banks into their own coffers and kept there.

Mr. UNTERMYER. This is a mere temporary expedient, and it ceases when the emergency passes. It is ideal, I think.

Senator REED. Of course, we all understand that under this bill the President of the United States could remove members of this board, and I am going to assume for the moment that the President of the United States in the future will always be, as I think he has always been in the past, without exception, a patriot; but Presidents have different views as to what is good for the country, and they respond to different influences. You say that it is inconceivable that a board should arbitrarily raise the rate of interest, for the reason that if they did arbitrarily raise it without some just cause, they would be subject to removal. But suppose——

Mr. UNTERMYER. It would also be ineffective, I said.

Senator REED. I believe you did; but let us deal with the one reason for the moment. Suppose that the President himself wanted the very thing done they did; then he would not remove, would he?

Mr. UNTERMYER. I think that is a fair supposition.

Senator REED. Is it not entirely conceivable that we should get a President sometimes who could be persuaded by shrewd and keen men, having great interests, that it was for the good of the country that expansion should be curtailed and the brakes put upon business?

Mr. UNTERMYER. Yes; I can conceive of such a thing, but I can not conceive of a rise in the interest rate by the bank under such conditions being in the least way effective, unless it was necessary——

Senator REED. That is the other reason, but sticking to the one road that we are traveling now, that is not only conceivable, but the fact is that the discretion to make this order would have to be vested

in a human being, in the last analysis, who might or might not decide the question right.

Mr. UNTERMYER. There is no doubt about that. I think we will agree there, anyhow.

Senator REED. So that we get down to this proposition, that so far as raising or lowering the rates of interest are concerned, you would have a board appointed by the President, responsive to his will and likely to obey his suggestions?

Mr. UNTERMYER. Yes; I think that is a fair assumption.

Senator REED. You say that could not do any harm, because if you expanded the currency—I am coming to the other reason now——

Mr. UNTERMYER. I do not want to say unreservedly that a board of the character of which this board should consist would be responsive to the will of the President if the members believed it was contrary to the public interest. I do not think that the President's point of view would necessarily govern.

Senator REED. In all the history of this country that has happened since I can remember; I know of just one Cabinet officer who resigned because he did not agree with his chief, in regard to a policy, and in that event I think he resigned because he did not want to part company with his party more than he resigned because he did not agree with the President's idea of the silver question.

Mr. UNTERMYER. But, how many times have you known the President to ask improper influence of these high officials?

Senator REED. I have known the President to advocate policies—to be father confessor for all the other advocates of that policy, which I believed and which you believed, if you are a Democrat—and you say you are, and I believe it—were utterly inimical to the country. There were lots of good men who believed the other way, but it does not place the President above the point of an advocate.

Senator WEEKS. If the board were as subservient to the President as the majority in the House and Senate are at this time, he would not have any trouble in controlling it.

Mr. UNTERMYER. That is because he is doing good work and they are in sympathy with him.

Senator REED. No; the illustration is a fit one, because we fully understand it has happened more than once in our country that there have been two or three men even in the great independent legislative bodies who have gone to the White House for their inspiration and who have not had to report to a caucus when they came back; they just told them what to do and they did it.

Mr. UNTERMYER. They probably got good inspiration.

Senator REED. I do not know whether there is a question about that. The people of the country concluded the last time that they did not, and they frequently come to that conclusion. But we are getting away from the question.

I wanted to discuss with you the question of whether or not it would not be possible now, and very possible, to produce stagnation and partial paralysis of business through the changing of the interest rates. Let us assume this——

Mr. UNTERMYER. You mean the rate at which the reserve board says the Government shall issue currency?

Senator REED. Yes. Let us assume this condition, that we have barely enough money out to properly conduct the business of the country in normal times; that there comes a period, we will say, for illustration, of crop moving, when another $100,000,000 could be absorbed by the country; if it was put out it would facilitate the crop moving and business generally. That period having now arrived, the banks under this system come to the reserve board and say, "We think there ought to be $100,000,000 more money out," and the reserve board says, "We will not issue it for less than 10 per cent interest." It would not go out, would it, unless there was a great emergency?

Mr. UNTERMYER. It would not go out.

Senator REED. Then the business of the country would be contracted and would be to that extent interfered with?

Mr. UNTERMYER. It would be better off than it is to-day.

Senator REED. I am not talking about the comparison of this new bill with evils now existing, because if we have got, in making the new bill, to make one where we must choose between evils we would hardly be making the best bill. We ought to try in making a new bill to avoid all evils, if that is possible. I am just discussing the question now, and I think I have found an illustration that meets your statement that ordinarily it could not change and alter business, because if you said it was issued too low at the time the country did not need it, it would not go out; if it was too high at the time the country did need it——

Mr. UNTERMYER. It would not go out.

Senator REED. It would not go out; but the business of the country would be destroyed just to that extent.

Mr. UNTERMYER. Assuming that we have always got to meet the need of every emergency.

Senator REED. If you do not meet the needs of an emergency, and just in proportion as you fail to meet the needs of an emergency, you have failed to have that elastic currency and that elastic system which we are now trying to create.

Mr. UNTERMYER. What I said was that if you put the rate too high, if the money is not needed and you offer it, why, then nobody will take it—it is not effective—and that if the money is needed and you put it too low, why, then so much money will be asked for that you will have to put it high enough to meet the evil.

Senator REED. A man now running this would do this very thing. But let us assume that somebody does just the wrong thing. Let us reverse these conditions. We are talking now about issuing money; we are not talking about banking, because with respect to all banking there is a natural limit to what we can do, and the loans that they make. But we are talking now about going to the very source of everything, namely, the circulating medium. Let us assume that there is plenty of money out, so that there is enough there to do the legitimate business of the country, and that legitimate business could justly bear a rate of, say 4 or 5 per cent. Everything is prospering, and everything is inclined to be rather on the boom. There is plenty of money out; and the more money, the more the tendency is to boom. At that period, when the brakes ought to be put on and the rate ought to be raised, this board drops it to a half per cent. Do you not think more money would go out and speculation would

become a little more active, new enterprises would be floated. Would not that happen if that was done?

Mr. UNTERMYER. If such an impossible succession of premises——

Senator REED. Is it impossible? Is it impossible now that we have got a period in out country——

Mr. UNTERMYER. We are getting into the realm of the improbable.

Senator REED. Is it improbable? I want to stick to that. We will just take a condition like we had here two years ago, going back to my illustration. You take a condition where we have had prosperity for several years; we have had good crops; we have had no financial disturbance; the money market is all right in Europe; we are building new roads; we are buying new automobiles; we are laying out parks and boulevards; we are building railroads; values are mounting; there is not a black spot in the sky; everybody has confidence; a large amount of confidence. That is bound to make itself felt. It influences most careful bankers; it influences the most careful business men; it would have its influence everywhere. Now, with that condition, would it not be entirely likely that that influence would make itself felt with this board of control, and that it would be inclined to make a low interest rate?

Mr. UNTERMYER. On the contrary, I should think it reasonable to presume that business men when they saw that condition would put on the brakes; and if they did not put on the brakes, there are brakes in the bill. One brake is that the reserve bank has got to have gold when it comes for money.

Senator REED. Coming down to the question which I think is fundamental, and that is that a system created ought to have some checks which are applied automatically, not by some human being's fiat or decree, but by the creation of a condition so that when the wagon is going too fast the brake is applied. You have indicated one way, namely, that the gold reserve of the bank, if put out at 33⅓ per cent, the scarcity of gold might put a limitation upon the amount of currency.

Mr. UNTERMYER. That is one brake. Another brake is that the reserve banks are composed of men selected by the bankers; that is brake No. 2. You have got more brakes in this system than in any other known system in the world, by the way. In other systems there is no brake.

Senator REED. Is there any other system where they just take notes of hand and issue money against them?

Mr. UNTERMYER. Yes, certainly.

Senator REED. Is there a limit in the law on the amount in every one of those systems?

Mr. UNTERMYER. I do not think so.

Senator REED. I am not sufficiently familiar with European banking to talk about it.

Mr. UNTERMYER. I do not think so, I do not know of any limit.

Senator REED. There is a limit, is there not, there, in the bank of England? Am I incorrect?

Senator SHAFROTH. By practice there is.

Mr. UNTERMYER. Not in the law.

Senator HITCHCOCK. In England the bank can not issue——

Mr. UNTERMYER. They have to have gold.

Senator HITCHCOCK. They can not issue currency unless the gold is on deposit.

Mr. UNTERMYER. In Germany the gold ratio goes up and down; there is no limit on the gold.

Senator REED. Speaking about the brakes in this bill—and I am speaking about a possibility, not of a probability—but it seems to me that as they are only required to keep 33⅓ per cent gold in their vaults, that it is possible to take that other 66 per cent, which is a credit, turn it into cash, loan it out again, take out 33⅓ per cent, turn it back into cash, and let it out again, so that there is a possible expansion in this bill that would make it so that we could have about three times the amount of currency that we have now.

Mr. UNTERMYER. Let us see——

Senator REED. Of course, now, I am talking about possibilities. I assume that the men handling the system and that this Government board would exercise a wise discretion, but in framing the law we have got to frame it not only for the wise and prudent and the patriotic, but as fair as possible for the foolish, the unwise, and even criminal.

Mr. UNTERMYER. But you must have a discretion lodged somewhere. Just consider the brakes of this system. In the first place, there is the member bank; that is a brake upon the borrower. Second, there is the character of the securities; that is the brake upon the borrower at the source, the member bank. Then, there are the associates of that member bank, in the reserve board, who can sit there, and who constitute a brake upon their member banks, and who are quick to see whether the member bank is being caught by some wild inflation, because their own interests are involved. They are not going to let him run away with their money and imperil their system. Then, you have got the gold reserve as a brake.

Senator REED. That is an absolute brake.

Mr. UNTERMYER. Then, you come up to the Federal board, and you have a brake there. It seems to me you could not have many more without making the system——

Senator POMERENE. They are subject to removal by the President?

Mr. UNTERMYER. Yes.

Senator REED. What about this idea that when a certain amount of this currency has been issued that no more shall be issued unless there is a greater gold reserve deposited?

Mr. UNTERMYER. The difficulty about that would be that if you put a limit in the bill, when the limit is about half reached it will lead to inflation, because every bank in the system, fearing that the limit may be reached, will go for more and get its share before the limit is reached and will take out currency it does not need. That was the objection to the original limit.

Senator REED. It would have to turn it back pretty soon.

Mr. UNTERMYER. That was the original objection to the $500,000,000 in the bill. I think it offered a premium upon inflation. That was the objection I had to it. I so expressed myself at the time and urged the change.

Senator REED. Then there is danger of inflation even by these wise bankers. If they could get it a little quicker, would they take a chance and inflate it some?

Mr. UNTERMYER. You can not have any human system without any danger of inflation.

Senator REED. You can have a system without danger of inflation. Of course if you had a gold dollar up for every paper dollar there would be no danger of inflation there.

Mr. UNTERMYER. Unless there was some sudden discovery of gold in the world that would increase the amount very largely, then you would have inflation.

Senator REED. Certainly. We might have that now, sure, if we had the gold.

Senator NELSON. In a good many countries they issue bills to the extent of the gold they have, but they generally require 50 to 60 and up to 70 per cent of gold for every 100 per cent of paper.

Mr. UNTERMYER. Yes.

Senator NELSON. That is, they can issue bills to the extent of the gold, but they generally require 50 to 60 and even 70 per cent gold for every 100 per cent of paper.

Senator BRISTOW. On that point I want to ask some questions.

Senator NELSON. If you will allow me——

Senator BRISTOW. Certainly.

Senator NELSON. There is the safety of it, because their paper is simply credit, while gold represents real value. If you base it on gold it represents industrial, commercial growth; its base is substance. While if you base it on anything else it is piling credit on credit; that is all it is, is it not, Mr. Untermyer?

Mr. UNTERMYER. That is the economic view of it; certainly.

Senator NELSON. The sound view?

Mr. UNTERMYER. Certainly.

Senator BRISTOW. Mr. Untermyer, you declared positively in favor of compelling one regional bank to discount the paper of another regional bank?

Mr. UNTERMYER. Under the limitations of the bill.

Senator BRISTOW. Is there any discretion at all with the bank as to whether it shall or shall not?

Mr. UNTERMYER. It should not be discretionary, if you want to mobolize the reserves.

Senator BRISTOW. Why do you compel one regional bank to rediscount the paper of another regional bank and refuse to compel the regional bank to discount the paper of a member bank?

Mr. UNTERMYER. One rests upon the basis of the public interest, and the other rests largely upon a private transaction; that is a very different thing. You have to get a cohesive, cooperative system, and if you are going to have 12 regional banks in the country, each simply confined to its own region, and not in a position where it would be compelled to help out the general system, you are not going to have a system at all—you will have 12 competitive systems.

Senator BRISTOW. Then, to take Senator Nelson's illustration: If, in the judgment of the member, the New Orleans bank ought to have a part of the revenues or the moneys——

Senator NELSON. Of the central bank.

Senator BRISTOW. Of the central bank; why, the St. Louis bank is compelled to discount those papers. That is in the public interest, because the people at New Orleans need it in the judgment of the board more than the people at St. Louis need it?

Mr. UNTERMYER. Because the whole financial conditions of the country require it, not because New Orleans needs it, particularly.

Senator BRISTOW. The financial condition of the country require it because New Orleans does need it more than St. Louis, in the judgment of the board here in Washington; is not that true?

Mr. UNTERMYER. You may put it that way.

Senator BRISTOW. The member bank goes to the regional bank for a discount because the people in its community needs it?

Mr. UNTERMYER. Yes.

Senator BRISTOW. The regional bank refuses because in its judgment they do not need it, or for any other cause that it may see fit?

Mr. UNTERMYER. You mean, it may do so, not any conceivable case of doing it unjustly?

Senator BRISTOW. It may do so whether it is unjustly or not; it has the power.

Mr. UNTERMYER. If it is justly, you have no complaint. It is only the power to do it unjustly?

Senator NELSON. It can do it without assigning any reason.

Mr. UNTERMYER. In effect, unjustly; that is your complaint—that it has a discretion which would enable it, in effect, to unjustly refuse an accommodation; if it refused justly you would have no complaint.

Senator BRISTOW. You put in the word "unjustly," I did not. That part of my question you interpolated. I suggested that the regional banks had the power to refuse rediscount.

Mr. UNTERMYER. Yes.

Senator BRISTOW. For a member bank.

Mr. UNTERMYER. Quite right.

Senator BRISTOW. And this for any reason. It might think that the condition of the member bank down at Anthony, Kans., we will say, did not justify extending further credit, because there had been a drought.

Mr. UNTERMYER. Any reason that the reserve directors thought was sufficient.

Senator BRISTOW. Because there had been a drought in the vicinity of Anthony, Kans., this board might refuse to rediscount this paper which the bank has taken and which the bank is willing to stand for, and the regional reserve bank would extend credit to some other community where it had a different opinion as to the industrial conditions. You are placing it within the hands of the regional reserve bank to pass upon questions of that kind, are you not?

Mr. UNTERMYER. Certainly.

Senator BRISTOW. But you refuse to give the same discretion to the regional banks as to discounting the paper of another regional bank?

Mr. UNTERMYER. Yes; because that is a necessary part of the system in its own interest, as well as others.

Senator BRISTOW. The relation of the regional bank to the region is the same, or practically the same, is it not, as the relation of the member bank to the member's region—that is, to its community?

Mr. UNTERMYER. No; that is just where we differ, sir. The regional bank has a distinctly public function. In the first place it is getting the currency of the Nation to help it out in its operations; in the next place, it is getting the credit of the Government back of it;

and, besides that, it is getting the Government's funds in its care. It has an entirely different relation to the public from that of the member bank to the regional bank.

Senator BRISTOW. You say it is getting the currency of the Nation—that is, on deposit?

Mr. UNTERMYER. No; the Government is issuing currency to that bank.

Senator BRISTOW. But that bank hypothecates for that currency securities which it receives from the member banks, does it not?

Mr. UNTERMYER. Certainly.

Senator BRISTOW. So that bank can hypothecate the securities from the bank from Anthony, Kans., for Government currency just the same as it could the securites of another bank in its region?

Mr. UNTERMYER. Presumably.

Senator BRISTOW. You will give to the regional bank the power to say whether or not this Government money which the Government issues, which it has not any interest in, except as trustee to pass it on from the Government to the member bank—to say whether this community shall have the currency or that community shall have the currency, even though the same class of securities are submitted from each community.

Mr. UNTERMYER. Yes; because presumably you have got to put the power somewhere. When the banks come in for rediscounts, somebody has got to pass on it. I do not know of any human, civilized system that does not lodge the power somewhere. Where could you lodge it better or more fairly than with the people who are to be accommodated? The banks themselves are passing on it. These men who are exercising their discretion are the nominees of the bank at Anthony, Kans. It has named them.

Senator BRISTOW. I understand that. I won't invade that field, because I think there is nothing more preposterous than the vision here that some of you gentlemen have that the banker at Anthony, Kans., is going to name this board. He is not going to have any more to do with it than the delegate who used to come up from the township to the county convention had in nominating his county ticket; that was all fixed before he got there; and this board of directors will be elected before the representative of this Anthony banker ever gets to St. Louis.

Mr. UNTERMYER. That is not the way the bill reads.

Senator BRISTOW. That is not the way the bill reads, but it is the way it will work, and anybody who has had any practical experience in American affairs must know that that is true.

Mr. UNTERMYER. Every bank has as much to do with that as every other bank.

Senator BRISTOW. And every delegate to the convention——

Senator NELSON. I think the principle Senator Reed advocated applies very properly here, and that is that it should not be left to the men; that it should be left to the law.

Senator BRISTOW. That is exactly what I am trying to get at.

Mr. UNTERMYER Let somebody try to sit down and try to write that kind of a bill, and see how far he will get

Senator BRISTOW. Some of us may undertake that before we get through.

Mr. UNTERMYER. Then we will have lots of chances to put holes in it.

Senator BRISTOW. That is right; I believe in that.

Senator REED. That is what we are here for; we would rather find the hole now than a year from now.

Senator BRISTOW. Why should not the law provide a means by which the banker at Anthony, Kans., could go to the Government himself with his securities and get the currency instead of having to have this extra, unnecessary machinery of a regional bank created in order that he might do it?

Mr. UNTERMYER. Well, because it would be a very dangerous thing.

Senator BRISTOW. Dangerous in what respect?

Mr. UNTERMYER. If you will try to conceive of such a condition, I think it will occur to you how dangerous it will be and how impossible. There are 26,000 banks in the United States. What would you do, have agents in the localities, so that a man would be subject to the whim, if you please, of a local agent of the Government? Instead of having a board of his own selection to pass upon his rights, he would have some local agent. That is all it would amount to.

Senator BRISTOW. We will see about that.

Mr. UNTERMYER. Then, again, what sort of security would the Government have? It would have the security that the man presented, indorsed by this bank at Anthony, Kans., while now it has back of this issue the responsibility of the reserve bank and its assets and its capital; it has the gold behind it and has a variety of other securities behind it to make it safe. It would be a mighty unsafe thing.

Senator BRISTOW. Well, I will suggest a question or two along that line, but before I do that I will say this: A number of times you have referred to the gold reserve as though there was a gold reserve required of these regional banks, when, in fact, there is not. It is gold or lawful money in the bill, and they do not have to have a dollar of gold.

Mr. UNTERMYER. I agree with that criticism, except that of course they answer the argument on the other side that under the act this lawful money has got to be kept on a parity with gold.

Senator BRISTOW. And the Government has the burden of keeping it there, and the bank has not.

Mr. UNTERMYER. Which is all wrong; it ought to be actually gold.

Senator BRISTOW. But, then, when you are defending the bill——

Mr. UNTERMYER. I have not defended every minor feature of it.

Senator BRISTOW. I do not think that we should assume that this bill required gold reserve when it does not, because that would very greatly strengthen it, in my judgment, if lawful money was stricken out as you suggest it should be; but it is not.

Senator SHAFROTH. Do you not think that the 33⅓ per cent which is provided to be in gold——

Senator BRISTOW. Gold or lawful money?

Senator SHAFROTH. Gold or lawful money.

Senator BRISTOW. Gold or lawful money; but that is not gold. Greenback is lawful money, and the Government has not maintained greenbacks.

Senator NELSON. It might be a silver dollar.

Senator SHAFROTH. Let me see if there is not a reason for that, and whether there is not a pretty good reason for it.

Mr. UNTERMYER. I know there is a reason.

Senator SHAFROTH. We have now national-bank currency, and that is redeemable at the banks in lawful money, and why? Because in times of stringency—times where they are making a raid upon the Treasury, you will have simply a more limited amount of money to make the demand on them, and by reason of that you will have less chance of maintaining your gold reserve.

Mr. UNTERMYER. It is wrong in principle.

Senator SHAFROTH. Let me see whether it is. Let me explain, in order to try to get the theory upon the other side. Suppose you have a nation that has got a gold reserve for all of its money of $100,000,000, and suppose it issues directly money like the greenbacks of $100,000,000, and then you have got a subordinate currency something like that or like national bank notes of $100,000,000. You have got a demand upon that gold reserve ultimately of $200,000,000 against $100,000,000, but the direct obligation of the Government is only upon the $100,000,000 which it has issued in the shape of greenbacks, and consequently in times of stress, when they present this bank currency it says, "All right; we will take United States notes," and then when the United States notes come they can give me that in gold. Now, it makes one-half of the demand upon the gold in times of extreme emergency less than it would if they had $200,000,000 redeemable directly by the Government or by these banks; in other words, does it not put these banks in competition with the Government if they are all redeemable in gold, and the banks are required to redeem those in gold, for the purpose of getting gold and redeeming this paper?

Senator NELSON. The banks——

Senator SHAFROTH. In other words, it makes twice the strain if all of it is redeemable in gold than if half is redeemable in gold and the other half is redeemable in that paper money, and that paper money redeemable in gold. It seems to me that there has been a purpose in that way of issuing our national bank notes which was in order to make it sure that the Government was not to be strained, and therefore that the gold standard would be maintained, and if that is true and these notes are redeemable one into the other, and ultimately redeemable in gold, and the obligation of the Government is to maintain the parity of the metals in addition to that, it ought to be a safer proposition not to have your gold reserve exhausted under this system than you would in having them all redeemable in gold and letting the crowd rush in all at once and attack the gold reserve, with double the amount of money making demand upon it.

Senator BRISTOW. If there comes a rush in the country for gold and the lawful money for which gold has to be paid is discredited, and that is the only thing that could create a rush on gold——

Senator SHAFROTH. But the Government could do this: You see, the Government could retire the money in that way, and it would have less to retire and it could retire it and wipe out all currency with the $100,000,000, but if there was $200,000,000 outstanding redeemable in gold absolutely, it could not redeem it all, and thereby the chances of a depreciated currency would come much quicker.

Senator NELSON. I want to call your attention to how this worked under Cleveland's last term of office. The national-bank notes could be redeemed in greenbacks; that is true enough; but whenever

there was a demand for gold abroad, there was a firm—Mr. Untermyer, you probably remember the name of it—Heigelmeyer——

Mr. UNTERMYER. Heidelbach, Ickelheimer & Co.

Senator NELSON. Yes. They made a business every week of going to the subtreasury with greenbacks and drawing the gold and shipping it over to Europe, and their operations became an endless chain. They did it week after week. You could read in the papers that that firm had taken out that much gold; and under the law they could not retire the greenbacks. There is a law preventing greenbacks being reduced below $346,000,000.

Senator SHAFROTH. Yes.

Senator NELSON. And to-day anybody can use those greenbacks as an instrument for drawing gold out of the Treasury without limit.

Senator REED. Do you not think that ought to be cured in this bill, Senator?

Senator NELSON. How? I think the banks ought to redeem this currency in gold and not throw the burden on the Government.

Senator REED. Is not that provision in regard to greenbacks that they could be retired if the Government wanted to?

Senator NELSON. If we made gold currency in the place of it, it might do.

Senator BRISTOW. To get back to the question that I spoke of, the reserve being required in gold or lawful money—if, as lawful money, the greenback was ever less than gold—why, that would be the money that the banks would use for their reserve, and because it would be cheaper to use it, the gold would disappear.

Mr. UNTERMYER. The Government is under obligation to keep it at parity.

Senator BRISTOW. But the burden is on the Government to maintain that.

Mr. UNTERMYER. Senator, I do not think we differ about that at all.

Senator BRISTOW. That is right. We will go ahead, then.

Senator SHAFROTH. Senator Nelson, is not there a law that provides that when the greenback is redeemed that it shall not be reissued except by the substitution of gold for the greenback?

Senator NELSON. I do not think so. There is a law you know—they went to work after the war, when they tried to fund our debt, and they kept on reducing it. They set out to redeem all the greenbacks, until Congress finally passed a law which stopped it and fixed it at the present maximum. If the Congress had not passed a law they would have had them all retired. That was the scheme in those days.

Senator SHAFROTH. I had an impression that there was a law that a greenback should not be reissued, unless——

Senator NELSON. They can not retire them, because they have no right to retire greenbacks.

Senator SHAFROTH. How?

Senator NELSON. They have a right to retire them to not below $346,000,000.

Mr. UNTERMYER. Senator Shafroth, I do not think the question of expediency in this form of bill—gold or lawful money—is anything like an offset against the discredit that the bill will get in foreign countries by having this provision in it; and, after all, the character of our money and the way it will be regarded and of our credit and our bills abroad depends upon the foreigner's view of our currency;

quite as much, if not a little more, than the view prevailing in our own country.

Senator SHAFROTH. I have always thought that money that was issued by the Government and made redeemable by the Government should be the specific thing—gold, or whatever your currency is; but wherever it is to be redeemed by something else, like a national bank, then it puts the bank in competition with the Government in the attempt to get gold, and that, of course, would have a tendency to make gold increase in price as compared to the circulating medium.

Mr. UNTERMYER. But, under this bill, the obligation is on the Government.

Senator SHAFROTH. No.

Mr. UNTERMYER. So far as the public is concerned, the obligation is on the Government. The gold is redeemable either at the office of the Treasurer in Washington or at the reserve bank; that gives the option to the man who holds the note.

Senator SHAFROTH. Yes; but the note circulating within the district is likely to be redeemed within the district; in fact, if they go to another district they have got to be sent back to the Treasury.

Mr. UNTERMYER. I know; but at the same time there is the option on the part of the holder of that note to go to the Government and demand his money.

Senator SHAFROTH. Of course he has got an option of doing that, but it is not the natural course of redemption that would occur.

Mr. UNTERMYER. That makes it a Government obligation.

Senator SHAFROTH. There is not any doubt but that in the end, if this note should ever go to a discount, the Government would have to come to the rescue, but the redemption is in the regional bank, because there the notes circulate; there the people live who have these notes. If the notes go out of the district, they are immediately sent back into the district, and there is the place of redemption, and if you have the banks having a gold reserve, and the Government having a gold reserve, you are going to pile up that gold reserve so that it will be impossible to issue——

Mr. UNTERMYER. Here is the obligation on the face of it—a Government obligation. There is no obligation on the face of this paper of anybody except the Government. It is a Government debt. But in that aspect I had intended to make the suggestion which I made earlier in the day, that the reserve banks should be required to keep their stock of gold at a central point—in Washington—credited to each reserve bank, but so that the Government, whenever a demand was made, can meet the demand out of the stock of gold belonging to that reserve bank. The gold should all be at one central point.

Senator SHAFROTH. That would relieve the gold very much, but I think it is very serious to have these two redemption points and make them have gold reserves to redeem in each.

Mr. UNTERMYER. But the Government will not have the gold, and that is the reason that the gold should be under its control, because the promise, the obligation to pay in gold is not good except in so far as the gold is there to meet that obligation. That is covered by gold to a certain proportion. It is not good if there is no gold there. Here is an obligation—a direct obligation of the Government to pay in gold, and if the gold or gold reserves are scattered through these different parts of the country, if a man comes along and says, "I want my money from the Government,"

they have not got it. The Bank of France has been hurt by the fact that it sometimes takes a week or two to give a man his money in gold. It has been said all over the world on that account that they really do not redeem in gold, whilst if you go to our Treasury or to the Bank of England you can get gold instantly.

Senator SHAFROTH. Their notes have never gone to discount.

Mr. UNTERMYER. No, because the crisis has not come, but at the same time a bill of exchange drawn on Paris does not sell like one drawn on London, and when people want to buy exchange for their international transactions, the Frenchman himself will go to London and buy exchange, because it sells better. Because they know that the gold is there.

Senator SHAFROTH. Let me ask you a few more questions.

Senator BRISTOW. I have a lot of questions here that I desire to ask.

Senator REED. I want to ask a question right now, because it is pertinent to just what was being said.

Senator BRISTOW. All right.

Senator REED. You say that there would be some difficulty under this bill or that there might be some difficulty about the gold reserve being scattered in 12 different banks. I want to call your attention right in connection with that criticism that this language in the bill—I refer to section 16——

Senator NELSON. What page?

Senator REED. Page 28, section 16, of the House bill—

that all moneys now held in the general fund of the Treasury, except the 5 per cent fund for the redemption of outstanding national-bank notes, shall, upon the direction of the Secretary of the Treasury, within 12 months after the passage of this act, be deposited in the Federal reserve banks, which banks shall act as the fiscal agent of the United States; and thereafter the revenues of the Government shall be regularly deposited in such banks, and the disbursements shall be made by checks drawn against such deposits.

I take that I am right in assuming that that makes it the absolute duty of the Treasurer of the United States to put into these reserve banks every dollar of our Federal money except 5 per cent of the funds for the redemption of outstanding bank notes, and except the gold coin that is now set aside back of the gold notes.

Mr. UNTERMYER. Gold certificates.

Senator REED. Gold certificates.

Mr. UNTERMYER. And how about the gold set aside behind the greenbacks—$150,000,000, is there not, there, against the greenbacks?

Senator REED. Is that sacredly set aside?

Mr. UNTERMYER. I do not know as to that. I think so. Is it, Senator Nelson, a specific fund? The act of 1900, if we have it here——

Senator NELSON. The gold standard act prescribes it.

Mr. UNTERMYER. I thought it was a special fund.

Senator REED. There may be that special fund.

The CHAIRMAN. It is a special fund held against the greenbacks.

Senator REED. I think that is right; and there would be, of course, excepted from the operation of this bill $1,100,000 held back of our gold reserves.

Mr. UNTERMYER. $1,026,000,000.

Senator REED. $1,100,000,000, every other dollar that we have got and every dollar we get has got to go into those banks.

Senator HITCHCOCK. You have got those figures wrong; that is $150,000,000.

Senator REED. $150,000,000 back of the greenbacks; there is $1,100,000,000 approximately back of the gold certificates.

Mr. UNTERMYER. Is it not $1,076,000,000?

Senator SHAFROTH. It was $1,086,000,000 this morning, but it has run up as high as $1,100,000,000 in the last month.

Senator REED. As I understand this, that takes in all those gold certificates?

Mr. UNTERMYER. I will say $50,000,000.

Senator SHAFROTH. It has gone up as high as $100,000,000 in the last month.

Senator REED. With those exceptions, whatever the exact figures may be, it all has to go into the banks?

Senator NELSON. Not that money.

Senator REED. I say "with those exceptions." He puts the Government in this shape, as to all moneys it gets—gold, silver, or paper—it has to take it over and put it in the bank. How could the Government have any money on hand for the purpose of redeeming, making good this currency, which we are putting into this bank's assets?

Mr. UNTERMYER. That is the criticism I have just made, Senator.

Senator REED. I was out. I did not understand that it had been made. I wanted, in connection with your criticism, to put that language in that way. It seems to me that the privileges of this bill manifestly are to be very carefully dealt with.

I want to ask you another thing in connection with it, aside from the mere question of redemption. Do you believe that there is any element of danger in making a law that compels the Treasury of the United States to disgorge its moneys and put them into this system of banks, willy-nilly, regardless of all circumstances and of all conditions?

Mr. UNTERMYER. I do not see any objection to the Government depositing its money in these banks.

Senator REED. I am not talking about whether the Government is wise and thinks best to do that, but I am talking about making the iron rule a law which says to the Treasurer of the United States:

You shall not put that money into your vault, no matter what the conditions are; you must put it over here in these banks.

Do you think it wise to make a rule of that kind?

Mr. UNTERMYER. I see no objection to giving the Treasury some discretion in the matter.

Senator REED. I would certainly think it ought to have some discretion in that matter. Ought not the Treasurer to have that discretion which a proprietor has over that which is his own—to put it in there or not to put it in there, as in the course of discretion it ought or ought not to be so deposited?

Mr. UNTERMYER. It depends upon what you are doing. If you are establishing a system and you want to strengthen it, you want to give it all the funds that are available.

Senator REED. If you were in business and wanted to strengthen it, would you adopt that course and make an ironclad rule that you

would put all the funds into that business that it required? I hardly think you would want to provide such an ironclad rule as that, to put every dollar you had into that business.

Mr. UNTERMYER. If I was running a department store that had a bank as one of its departments I would put my funds into the bank to strengthen it.

Senator REED. That would be your bank?

Mr. UNTERMYER. Yes, sir.

Senator REED. This is not our bank.

Mr. UNTERMYER. We have, however, a large discretion over and interest in its operation.

Senator REED. But we have no discretion about our putting our money in it, however. Let me imagine this sort of thing. My imagination is not ample; it is only Irish.

Mr. UNTERMYER. Well, that is very close to mine in temperament.

Senator REED. Let us imagine that when we put this system into operation we find that after it has run awhile we have a large amount of paper outstanding, and there has come some calamitous condition in the country and that paper can not be paid—the paper upon which the currency is based. We find that the whole banking system, the whole scheme now, existing in 7,800 independent banks, but under the new bill tied together by 12 regional banks; that at least those 12 regional banks are in a shaky condition and maybe are going to fail, and here is a Secretary of the Treasury with some emergency existing for the Government and demanding this money and he is compelled to put this money into the bank by the ironclad rule of law.

Senator NELSON. Senator, allow me in that connection to say just one thing right here. Under the present law the Treasury Department can deposit Government funds in its discretion with national banks upon security. There is nothing in this bill that I can find that requires these reserve banks to give security for these Government deposits, except you can say that that would come in under that law. There is nothing here.

Senator REED. That is just what I am driving at. I have not found it.

Senator NELSON. It can require security under the present law. They afterwards extended it to Government bonds, and I believe finally now they have added commercial paper and do it on that basis; but there is nothing in this bill that I can see that requires any security to be given for these Government deposits

Mr. UNTERMYER. Yes; and there ought not to be. These Federal banks can incur no obligation except to the Government and for currency loans, and to its member banks for their deposits.

Senator NELSON. They give no security, however.

Mr. UNTERMYER. The ordinary bank has obligations; this reserve bank has no power to incur any obligation except as stated.

Senator HITCHCOCK. But it has deposits.

Senator NELSON. In the State of Minnesota we deposit funds among the State banks, but we require them to give security.

Senator REED. There is nothing in this bill that gives the Government the first lien for the money it deposits. It gives it a first lien as to the money it advances upon assets of the regional banks.

Mr. UNTERMYER. It ought not to have a first lien as against the money deposited by the banks. The Government money ought to

be on the same basis as that of the banks, because of the supervisory control it exercises.

Senator NELSON. Another thing, Senator Reed, right in that connection. You are on the right track here. They are virtually compelling the Federal Government to open an account with these regional banks that do all their disbursements by checks, instead of giving it out to you and I and all other Government employees. They give us checks on these regional banks. That would be the system. It is simply making the Government establish checking accounts with all these banks.

Mr. UNTERMYER. It has checking accounts now—a great many.

Senator REED. There is another reason it seems to me. The Government of the United States agrees to make good in gold every note that may be issued at the demand of these banks.

Senator NELSON. Regional banks?

Senator REED. Now, if the Government of the United States collects at its port of entry and by its various other means funds from the country and has the right and power to lay aside in its vaults such gold as it gets from time to time, it has that gold in reserve to meet its obligations; but under the provisions of this bill it is compelled to deposit every dollar it gets in these banks. It no longer has the ability to conserve its gold reserve or to create one; it must carry that gold over the minute it gets in and put it into these banks where only 33 per cent of it is being held.

Senator BRISTOW. None of it is being held, "gold or lawful money."

Senator REED. It seems to me we ought to give that very serious consideration. I have not arrived at any conclusion about it.

Mr. UNTERMYER. I think that the Government stock of gold should be segregated and used to uphold its own credit and that it should not be required to deposit its gold with the reserve banks.

Senator REED. I think you are right about that.

Mr. UNTERMYER. That is why I an offering the suggestions I am making here, in respect to this question of gold. A point that occurs to me is that there is no power in the bill, so far as I can see, to issue currency with which to buy gold. Reserve banks have the right, under the bill, to deal in gold or gold bullion, and the Government has the specific right to issue currency, but only as against certain specified assets, consisting of commercial paper. There is nowhere any power to issue currency with which to buy gold, and thus make good its obligation to maintain the parity and to redeem the notes that are provided to be issued.

Senator SHAFROTH. Does not the law of March 14, 1900, which is reaffirmed in this bill give that right?

Mr. UNTERMYER. Only to preserve the parity of our then existing note issues.

Senator SHAFROTH. To preserve the parity and to use all the powers of the Government.

Senator NELSON. That is only to get the gold to maintain the parity of our money which we had at that time.

Mr. UNTERMYER. Yes; and I understand that they can only do that through bond issues. The Government will have the right to issue this particular kind of currency now under discussion for the purposes and upon the security specified, and for none other. It is

specifically provided that this currency shall only be issued for certain purposes, which do not include the purchase of gold. That is my idea.

Senator SHAFROTH. I think you are right there.

Senator NELSON. The law of 1900 provided for the sale—authorized the sale of bonds to replenish the gold reserve. That was to replenish the gold reserve for the purpose of taking care of the greenback and silver currency; but there is no law authorizing the replenishing of the gold reserve to take care of this reserve currency.

Senator REED. You do not think that could be implied?

Senator NELSON. I hardly think so.

Senator REED. It merely preserves the right created by that law.

Senator NELSON. I do not think it could be implied.

Senator REED. It could not be implied to care for this money we are about to issue.

Mr. UNTERMYER. These are all changes largely of phraseology and do not affect the fundamental principles of this bill.

Senator REED. But they are very important.

Mr. UNTERMYER. Yes; they are important. Of course, the bill needs a number of these changes. I have thus far referred to only a few of them. There are many more and some of them important. They do not, however, affect the great question as to whether this is a good system in its fundamentals.

Senator BRISTOW. If you are through with that, we will come back to the system.

Mr. UNTERMYER. If you do not mind, I would like, in connection with my claim that these currency notes can not be issued to buy gold and that no means is provided to supply the gold with which to make good the redemption promise, to call your attention to the following language of section 17:

SEC. 17. That Federal reserve notes, to be issued at the discretion of the Federal reserve board for the purpose of making advances to Federal reserve banks as hereinafter set forth and for no other purpose, are hereby authorized.

That would exclude the power of the Government to issue these notes to replenish the gold reserves.

Senator SHAFROTH. I think it quite likely.

Senator BRISTOW. Now, back some time since, when we got started off on this gold question, I was inquiring why provision should not be made so that this bank at Anthony, Kans., could take those securities direct to the Treasury and get the currency from the Government—this Government currency—instead of through the machinery of this bank; and you suggested it would be a very difficult thing to do.

Mr. UNTERMYER. A very dangerous thing.

Senator BRISTOW. A very dangerous thing?

Mr. UNTERMYER. And it seems to me a very unscientific thing.

Senator BRISTOW. When a national bank wants to issue any currency it goes to the comptroller, does it not, under fixed requirements of the law?

Mr. UNTERMYER. Yes.

Senator BRISTOW. And it gets the currency and it is issued and it circulates among the people. That has not been very dangerous and it has not been very complicated, has it?

Mr. UNTERMYER. It has been very rigid, and is measured by the known quantity of Government bonds of a given character.

Senator BRISTOW. Very will; we will admit that it is rigid.

Mr. UNTERMYER. But it is the Government credit on which they get the currency.

Senator BRISTOW. The Government credit—it takes a Government bond, but the Government deals directly with the bank.

Mr. UNTERMYER. Yes; but the Government originally had the gold from that bond with which to pay this note. In other words, when the bond was sold, the Government got the gold. And so when the man comes over with the bond the Government presumably has the gold that it receives from that bond against the note. That is 100 per cent security.

Senator NELSON. The Government, under this bill, can not get any gold except by the sale of bonds, for the reason that these Federal reserves are to be accepted in payment of all dues to the Government—taxes, customs, duties, and everything else. The Government can not get any gold through these reserve notes. The only way the Government could possibly get it, and that is doubtful, without amending the law——

Mr. UNTERMYER. It can still own the notes. It can exchange those notes for gold. It can sell them.

Senator NELSON. That is, if the regional bank had the gold?

Mr. UNTERMYER. No; it can sell them in the markets of the world.

Senator BRISTOW. What notes do you refer to?

Senator NELSON. The reserve notes.

Senator BRISTOW. The Government sells this currency.

Mr. UNTERMYER. It can issue this currency.

Senator REED. You mean discount it for gold?

Mr. UNTERMYER. Yes. They can not directly discount it for gold. I agree to that. But they could issue those notes through the regional banks and buy gold.

Senator NELSON. Unless it was compulsory it would not work very well.

Mr. UNTERMYER. I do not think you could do it that way—sell the notes and get the gold for it.

Senator BRISTOW. Now, to get back to this system of which you are afraid of the Government dealing direct with the banks. The Government has experienced no difficulty in dealing with the individual banks so far as the present national-bank currency is concerned. Now the only complaint is that that is a rigid currency. It is based on the obligations of the Government. It is proposed here to issue a currency based on the obligations of the individual citizen who is in business—not on the obligations of the Government. If the law would prescribe the kind of security that could be received by the comptroller and currency issued upon such security under certain conditions, why could not the comptroller's office deal directly with the banks?

Mr. UNTERMYER. Because it has not the safeguards thrown around it and you would make a collection agency of the Government. Under the pending bill the Government can rely largely as to the character of its security upon the investigations of the reserve board.

Senator BRISTOW. That would depend, would it not, upon the kind of security the Government decided could be hypothecated for currency?

Mr. UNTERMYER. I am assuming it is such security as the banks have which is owed for the currency.

Senator BRISTOW. If that were State bonds or municipal bonds or security of that kind it would not be difficult would it, because it is well known what the market value of that kind of security is?

Mr. UNTERMYER. When would that money ever come back?

Senator BRISTOW. That would depend upon the tax that was put on its use, would it not, as to when it came back?

Mr. UNTERMYER. To some extent; but it seems to me that a large part of it would naturally not come back except in the course of years if it was loaned on obligations of that character. You would soon get to the end of your tether.

Senator BRISTOW. I think not at all. If a bank paid interest for the use of this currency to the Government—for the use of this currency issued to it upon this security—and a deposit of this security is made to secure the return of the currency, and if month by month the interest charge became heavier it would, as a matter of fact, result in the notes being presented for redemption and taken up. Would not that give elasticity to the currency?

Mr. UNTERMYER. Up to a certain point; but you would not get a currency that would retire itself at all, except by enforced redemption at a high rate of interest; and then you might have to run the interest rate up to such proportions that it would reflect upon the credit of the whole country. If the Government found itself exacting say 7, 8, 9, or 10 per cent interest upon municipal bonds what becomes of our credit throughout the world? All private credits would go up.

Senator REED. Would that be true, then, if this board raised the interest?

Mr. UNTERMYER. I can not conceive of the board raising this interest to any great height.

Senator REED. They are not authorized to stop it.

Mr. UNTERMYER. Yes; they are always authorized to stop it.

Senator REED. Not under this bill.

Mr. UNTERMYER. Yes; they have the right to fix the rate, the right to fix the security, and the right to do those would necessarily imply the right to refuse to issue the paper at all.

Senator REED. The point I am making is in connection with the raising of this interest rate upon the moneys issued to the banks upon the illustration of Senator Bristow. If that would destroy the credit of the country abroad and break down the system, then I do not see why there should be a raise to a very high rate.

Mr. UNTERMYER. No; suppose we analyze it for a moment. Here you have a rate covering a great region of the country, a reserve region of one-twelfth we will say of the whole country, based upon short-time paper, that is to some extent self-redeemable and self-payable. It is not within the range of probabilities that the rate would go up to any extortionate amount, because the situation is temporary and the paper rapidly maturing. You are dealing with 26,000 banks, and some bank comes in and borrows on municipal bonds or something else due in 10 or 20 years and the rate rises automatically month by month under your plan, and that particular bank is not able perhaps in one to three years to realize on its bonds so as to pay, and the rate goes up to an abnormal figure.

Senator REED. You are assuming that it has now liquid assets: it has notes, etc., to collect.

Mr. UNTERMYER. I am assuming that it will need those assets in its current business, and has on hand a municipal bond which has no

market, payable many years from now. It takes it years to get in the money, and I say to Senator Bristow that under his plan he is going to keep automatically raising the rate month by month until the loan is paid, and that is impracticable beyond a given limit. You can not issue currency based on immovable assets or on obligations with a long or uncertain maturity.

Senator BRISTOW. You say this municipal bond is not liquid. Do you expect the Government to collect these notes of Tom, Dick, and Harry out here in California or Oregon and hypothecate them?

Mr. UNTERMYER. No: because between the member banks and the Government you have the regional banks, which are responsible for the debt and must assume the burden.

Senator REED. Do you expect the regional banks to do that?

Mr. UNTERMYER. No: we expect the member banks to collect for them: but we expect them to collect for the account of the regional bank. When the member bank does not collect, of course the regional bank will have to have the machinery for that purpose. But that is a very different thing from the Government having the machinery, itself having running accounts, taking collateral, and collecting if the collections are not made by the member banks.

Senator HITCHCOCK. Suppose it was limited to the national banks, which is as far as this bill goes?

Mr. UNTERMYER. I should hope that was not so.

Senator HITCHCOCK. I think it will be limited to that extent.

Mr. UNTERMYER. Then you will never have much of a system.

Senator HITCHCOCK. Suppose it was limited to the national banks, and suppose we created 48 subtreasury officers to correspond to the 48 cities we have now. Suppose we use the machinery of the comptroller's office which already exists, and under which the banks are periodically examined by the comptroller's agents. Those agents are obtained to examine the banks as to their solvency and they are competent to pass upon the paper in the bank, are they not?

Mr. UNTERMYER. I do not think that follows.

Senator HITCHCOCK. That is what they do all the time.

Mr. UNTERMYER. They do, to a certain limited extent, of course, but in a general way I do not think that is true.

Senator HITCHCOCK. Suppose the bank examiner placed in each one of these subtreasuries, instead of putting up bonds, should pass upon this commercial paper. These experts are just as competent to pass upon that paper as these regional banks, but instead of having 12 we would have 48. What would be the objection to having the national banks secure from the Government an amount of currency, say, equal to three quarters of its capital stock, and have them put up the commercial paper which would be passed upon by the examiners?

Mr. UNTERMYER. It would be bureaucratic. It would be putting the final decision as to the character of the paper put up as security into the hands of one man. Now, the paper is subject to the examination of the banks themselves and the board of directors. Again, you would not have the security you have now. You have now the uncalled liability of the bank. You have a first lien upon all the assets of the reserve bank and on all its deposits.

Senator HITCHCOCK. You can make this a first lien, too.

Mr. UNTERMYER. No; you can only make this a first lien on the assets of that particular bank, Senator.

Senator HITCHCOCK. The agent of the Treasury would be the examiner, then.

Mr. UNTERMYER. I understand that. Some one official would be the examiner. Under the other system there would be a board to do that.

Senator REED. You do not mean that the board of nine members would examine 700 of these members of the regional bank? They would have to do that through agents, would they not?

Mr. UNTERMYER. I do not think so. That is one of the arguments in favor of 12 regional banks instead of a less number—the directors would be selected from the regions where they have the general knowledge which is required to pass upon that paper. But there is a lack of security to the Government behind that sort of note issue.

Senator REED. Where do you get the additional security in the reserve system?

Mr. UNTERMYER. In the first place, you get all the reserve of the bank for every discount and every member bank instead of getting simply the obligation and reserve of the one bank—No. 1.

Senator BRISTOW. While you have the assets of the regional bank, the regional bank has a great deal more obligations to the Government than the individual bank has.

Mr. UNTERMYER. I understand that it is under obligation to the Government to accept the currency and the money deposited by the Government. If you deal through a regional bank, you can get additional security that you do not get when you deal with a member. In the first place, you get the uncalled stock liability.

Senator REED. That is a double liability of the stock.

Mr. UNTERMYER. Yes; and the 10 per cent that is uncalled. Then you get a first lien upon all the assets of that bank, which means that you get a lien ahead of everybody else on the deposits of the member banks with that reserve bank.

Senator REED. You mean to say that you get a first lien upon the assets? Assets are the reserves.

Mr. UNTERMYER. I said upon the deposits.

Senator REED. The reserves that are there?

Mr. UNTERMYER. You get a first lien on those.

Senator BRISTOW. On the assets?

Mr. UNTERMYER. Yes.

Senator BRISTOW. It would not be on the reserves of the bank?

Mr. UNTERMYER. Those deposits are assets of the reserve banks.

Senator BRISTOW. They are debts of the reserve banks.

Mr. UNTERMYER. They are also liabilities; but they are assets.

Senator BRISTOW. How could you have a debt and an asset at one and the same time? They do not mean one and the same thing.

Mr. UNTERMYER. Of course, you would have a liability. The money that the member bank puts in there—those are assets of that reserve bank; it owes the member bank and it is indebted for the amount of the notes.

Senator HITCHCOCK. Instead of a lien on the deposits you mean a lien on the cash?

Mr. UNTERMYER. I mean a first lien on all the moneys they have.

Senator HITCHCOCK. What deposits of any value are there? There is only a third on hand in cash.

Mr. UNTERMYER. But the rest of it they have out in obligations—notes that they have discounted and own. They would have a lien on all those. That means a lien on the deposits. Then every mem-

ber bank becomes a guarantor for the obligation of every other member bank for the unpaid liabilities.

Senator REED. They become liable to the regional banks to the extent of its stock interest.

Senator REED. Let us capitalize a regional bank.

Senator BRISTOW. Yes; that is an excellent idea. Also capitalize the individual bank and put them side by side.

Senator REED. Now, let us say that here is a regional bank started in the city of St. Louis with 700 member banks and with 10 per cent of the capital stock and those 700 member banks will take up $5,000,000. This is an arbitrary figure. You take $5,000,000 and you put it in the Treasury. You have got now the right to call for $5,000,000 against these member banks.

Mr. UNTERMYER. Yes.

Senator REED. That constitutes the double liability for it. You have $5,000,000 now.

Senator WEEKS. It is not a double liability, for you have to issue stock for that second $5,000,000.

Senator REED. Yes; you just have $5,000,000 in money.

Mr. UNTERMYER. That $5,000,000 uncalled liability is an asset.

Senator WEEKS. Of course.

Senator REED. I am going to put it over here and count it as a real reserve to be drawn against, and we will say you have $10,000,000 of deposits.

Mr. UNTERMYER. And now you have $30,000,000 of deposits.

Senator REED. Now you have $30,000,000 of deposits, which is the reserve which the banks now have in their vaults or have in the vaults of other national banks.

Mr. UNTERMYER. And that $30,000,000 of deposits is invested now in obligations.

Senator REED. We have $40,000,000.

Senator WEEKS. Some of it.

Mr. UNTERMYER. Yes; the rest of it is gold.

Senator REED. You have $40,000,000 in this bank now. Now what happens? We loan that $30,000,000 at once to the member banks and we take the notes of the member banks, and we also loan our $5,000,000, or two-thirds of our $5,000,000, put in for stock. We loan that out.

Mr. UNTERMYER. You can loan that all out; and you can only loan two-thirds of the $30,000,000.

Senator REED. You are correct. We have a bank now with $20,000,000 and we have set aside a reserve of $10,000,000 in gold, and we loan $20,000,000. Now we have $30,000,000.

Mr. UNTERMYER. You loan the 20 and the 5.

Senator REED. We have $25,000,000 loaned and we have the paper of these banks. We thereupon go down to the Treasury with that $25,000,000 and we get $25,000,000 Federal notes for it.

Mr. UNTERMYER. Yes.

Senator REED. Which we in turn loan again to these other banks, for we have it in our hands.

Mr. UNTERMYER. And then when you do that you get their assets.

Senator REED. Now, we have the obligations of these banks in the long run for $25,000,000 and we have given and obtained from the Government $25,000,000 of paper.

Mr. UNTERMYER. But you must add this $25,000,000 to your assets; you must put the $25,000,000 on this side.

Senator REED. Now, you have back of that paper money that was issued by the Government what? You have the $5,000,000 of stock in this bank and you have the $25,000,000 of the member banks' paper, indorsed by the regional banks. If you turn it over again, making the second loan, you then have $50,000,000 of bank paper and $50,000,000 of currency. Each time you turn it over you take out 33 per cent of gold.

Mr. UNTERMYER. But $25,000,000 of this comes behind the Government debt. The currency is preferred. It is a first lien ahead on these reserves.

Senator REED. I understand that, but you lend it out again and go back and get more currency.

Mr. UNTERMYER. You are always $25,000,000 ahead.

Senator REED. I grant that. But you keep on doing this until finally, having taken out one-third each time of the gold reserve, you have $100,000,000 of this currency out. You have $100,000,000 of notes indorsed by the banks and you have that $5,000,000.

Mr. UNTERMYER. You have $125,000,000 indorsed by the banks.

Senator REED. Well—$125,000,000. You have that $5,000,000 of money you originally put in. The rest of this is all the debts of these banks and you have not got a thing to fall back on outside of that money that was originally put in, except the $5,000,000 of additional assessments you can make. Now, then, that is that situation.

Senator BRISTOW. Now, take an individual bank.

Senator REED. Let us take a bank that is organized with $100,000 of capital.

Mr. UNTERMYER. I think you are wrong, Senator Reed, if I may interrupt, if you do not mind. What you have is this: You have back of that $25,000,000 the notes.

Senator REED. You have the obligation.

Mr. UNTERMYER. You have $40,000,000 of securities.

Senator REED. But it is made up of the notes.

Mr. UNTERMYER. The point about it is that the Government's claim for the currency becomes a prior lien; prior to the reserves of these banks, and therefore it is absolutely good. The banks can not get back a cent of their reserves until all that currency is redeemed by the reserve bank.

Senator REED. But they borrow back the reserves.

Mr. UNTERMYER. You have the notes instead; you have a prior claim to the member banks on these assets.

Senator REED. Well, let me grant that for the moment—although I think that what you have got in this transaction is $5,000,000 in money paid in by the banks for this stock, $5,000,000 in liability for the issue, and then you have the notes of the bank representing the money that is issued. Now, we are talking about the security for this money.

Mr. UNTERMYER. Then you have also the gold reserves as further security for the notes.

Senator REED. Yes; you have got your 33⅓ per cent.

Mr. UNTERMYER. I mean that that is your security, too.

Senator REED. That comes out of the aggregate, of course. When you take out your reserve and your gold you set that aside and that is that much margin.

Senator HITCHCOCK. Senator Reed, I think you have left out still another very important distinction. That is, under that suggestion made by Senator Bristow which I took up, there was a limit on the amount of currency, or credit, which each bank would secure.

Senator REED. I am coming to that.

Senator BRISTOW. He is coming to the individual bank.

Senator HITCHCOCK. But under this scheme there is no limit to the amount of credit which the reserve bank may extend to the individual bank; and instead of extending to the individual bank a limit, of say, 75 per cent, as proposed by Senator Bristow, the reserve banker extends it a credit of 400 per cent on its capital; and that is all the security the Government would get in addition.

The CHAIRMAN. May I make just one suggestion there? The primary security against these notes consists of the note of the individual which is discounted, and which, under the terms of this bill, has a short maturity. Under the law of probabilities, the danger of a man who is regarded as good by a bank and to whom the money is loaned failing within 60 or 90 days would probably be about 1 in 25,000.

Senator REED. That is true of both systems.

The CHAIRMAN. Yes, of any system.

Senator REED. One in twenty-five thousand?

The CHAIRMAN. And such a note, before it becomes a security under the system for the issuance of these Treasury notes, must also be indorsed by the member bank. And under the law of probability, the probability of a member bank in good standing, examined by the examiners, and reported as sound, failing within the period of 60 days, or 90 days—the life of the contemplated transaction—is probably 1 in 100,000. And the measure of probability of the failure of the individual maker of the note and of the bank which indorses that note, failing within the limited number of days, would be measured by 25,000 multiplied by 100,000.

If, however, such a contingency should arise, then the note has the further security of the double liability of the stockholders of the member bank indorsing that note.

If, however, those resources should fail, the Government, in that contingency would, against such a loss of security, have the stock of that particular member bank that failed in this reserve bank.

In addition to that, however, it would also have the security of the reserve deposit of this member bank with the reserve bank. If, however, those resources should all fail, the Government would have a further safeguard as to these particular notes, in the 33⅓ per cent gold reserve required against the notes.

And in addition to that it would have a first lien upon the assets of this bank, which you have, in this particular case of exemplification named, amounting to $40,000,000.

And in addition to that you have the double liability of the member bank for the amount, equal to a like sum with their capital.

There never has been, in the history of the world, a note secured by such a volume of security.

Senator REED. I do not like to differ from the chairman; but I think you have counted your assets at least three times in turning that over, Mr. Chairman.

The CHAIRMAN. Then the record is open to the Senator from Missouri to demonstrate that fact.

Senator REED. I can not see it that way. I do not mean that it is bad security; but I mean you have counted it too often.

Senator NELSON. Now, the regional banks are required to keep 33⅓ per cent in gold for redemption.

The CHAIRMAN. Yes.

Senator NELSON. Now, that will be idle money. Why not require them to deposit that reserve in the Treasury Department, with the Treasurer, and then if every bank deposited that 33⅓ per cent the Treasury Department would not have any trouble in getting a gold reserve to redeem the note. Would not that make it safer? Otherwise you would simply have the bookkeeping of the banks.

Mr. UNTERMYER. That is the suggestion I made awhile ago, except that the gold thus deposited should be to the credit of each reserve bank, but deposited so that the Government could make good its obligation to redeem the notes in gold.

Senator NELSON. It should be to the credit of each bank, for the bank note.

Mr. UNTERMYER. We went over that awhile ago.

Senator BRISTOW. Now, I want Senator Reed to work out this little bank problem, to come down to the little banks. For his liability he has got his sacks up just as high. His liability is not as great, but he is just as good.

Mr. UTERMYER. Hardly.

Senator BRISTOW. I think he is better.

Senator HITCHCOCK. His liability is limited to 75 per cent of his capital stock.

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. That is all the currency he can get, whereas through the reserve agent he may get an amount of currency which was 10 times the amount of his capital.

Mr. UNTERMYER. But I think the chances are about 1,000 to 1 on the question of security.

Senator BRISTOW. And then you put behind that 75 per cent—when Senator Reed gets that worked out—you put behind that the gold reserve in the same proportion that you require of the regional bank. You put behind it the assets of the member bank. Have you got that worked out, Senator Reed?

Senator REED. No; I have not been able to do it yet.

Senator HITCHCOCK. Would it not be well to adjourn at this time?

Senator REED. I would like to see it done (and I will do it if nobody else will): Assuming that it proceeded on and got this currency until its ability was exhausted by the amount of gold reserve it had set aside, and see what the asset is back of it; and then take the individual bank, with its limitation, and work it out. Somebody can do that, it seems to me.

Mr. UNTERMYER. Do you think there is any occasion for me to be here to-morrow?

Senator BRISTOW. Yes. We have not got started on the subject yet.

Senator HITCHCOCK. Yes. We have hardly got started.

Senator WEEKS. I have not had time to ask any questions. Mr. Chairman, before we adjourn, I want to make a little statement in connection with a colloquy which I had with Mr. Untermyer this forenoon about the bonds held by two Boston banks.

Mr. UNTERMYER. Yes.

Senator WEEKS. I have not been able to find out the exact facts yet. I have been looking it up in the comptroller's report to find out how many they held, but I have been unable to do so because real estate and other things are lumped with them; but I am inclined to think that I underestimated their holdings. And I want to say that in justice to Mr. Untermyer.

Mr. UNTERMYER. I do not think that was necessary, Senator Weeks, as I understood your point of view. You understand that I did not mean, in anything that I said as to those banks, to reflect on their method of doing business. I was trying to show why it was not to the interest of the great banks of New York to have this system take the place of the present system.

Senator SHAFROTH. Mr. Chairman, when are we going to close these hearings?

The CHAIRMAN. We ought to be able to conclude with the witnesses who are available now by Friday.

Senator WEEKS. Mr. Chairman, I have several witnesses here who would like to be called. I should like to give you the names, if it is going to be the policy of the committee to call those witnesses who desire to be heard. I think the committee had better decide that question now. If it is decided to hear other witnesses, I would like to furnish the clerk with these names, and ask that they be called.

Senator POMERENE. Are they bankers?

Senator WEEKS. Yes.

Senator SHAFROTH. How many are there?

Senator WEEKS. I do not know. There is a telegram from Charles P. Blinn, president of the Massachusetts Bankers' Association, who asks to be heard.

Senator SHAFROTH. Is he the only one from home you have heard so far?

Senator WEEKS. No; I have six. Five of country bankers. Mr. Blinn is vice president of a Boston bank. I understand that he wants to bring two or three country bankers with him from Massachusetts.

Senator BRISTOW. I will furnish the chairman with the names of some country bankers from the West who want to be heard.

Senator POMERENE. Mr. Chairman, I want to renew a suggestion I have made three or four times, and that is that if we would allow a witness, when he comes here, to make his statement and then take up the cross-examination of him in some regular order we would save a vast deal of time and we would get more satisfaction out of it, both from the standpoint of the witness and from the standpoint of the members of the committee.

Senator SHAFROTH. I think so, too.

Senator POMERENE. There is not any doubt about it. We would have saved time this afternoon if we had adopted that course.

The CHAIRMAN. That is a matter, of course, which rests in the discretion of the committee. It obviously is not for the chairman to intervene when an examination by a member of the committee is under way.

Senator WEEKS. I think we have been reasonably regular. I have been sitting here nearly the whole day listening to what was being said.

Senator POMERENE. So have I.

Senator SHAFROTH. Mr. Chairman, can not we agree upon a time to close these hearings?

Senator POMERENE. No.

Senator BRISTOW. No; we can not.

Senator SHAFROTH. You will find that there will be more time——

Senator POMERENE (interposing). There will be a reasonable limitation.

Senator SHAFROTH. Why not make it now?

Senator HITCHCOCK. What was your suggestion, Senator Pomerene?

Senator POMERENE. Here is Mr. Untermyer, who has come here with well-defined ideas, which he wanted to present to this committee, and he should give them in some consecutive order. Now, let him make his statement, and then let the members of the committee question him, in regular order, upon matters that they may have in mind. In that way we will get the benefit of Mr. Untermyer's thought upon the subject and have them in some consecutive order, it seems to me; and we will save a great deal of time by it.

Senator SHAFROTH. Well, can we close the hearings, say, Saturday—a week from next Saturday?

Senator HITCHCOCK. How can we tell at this time?

Senator SHAFROTH. We have got to end them some time. We can go on indefinitely for 10 years and not get fairly through it.

Senator REED. Mr. Chairman, I have seen a great deal of time spent in the prosecution of a suit at law over one question; and it was deemed necessary by courts of justice to take that much time to investigate that one question. It is not unusual for an important lawsuit to last six or seven weeks. It occurs to me that, with a question of this kind, involving as it does the very life of the commerce of our country, we can afford to sit here long enough to let those parties who have a real and a substantial interest or a real message to deliver be heard.

Now, we are, of course, wasting time when the committee feels that it has been over this ground and been thoroughly advised; and then we ought to stop. There is this important fact that I want to emphasize.

If Mr. Untermyer, who is a very learned man, is correct in his diagnosis of this bill, then there are a large number of important amendments that he has suggested. We have had suggestions from men here who have spent their life in banking and who have pointed out a great many other suggested amendments.

And I think that before we put a system of this kind on the country that affects all the banks and all the people, we ought to come just as near knowing what we are doing as it is possible for us to know, within our limited experience and intelligence.

I am not in favor of any rush act on this bill. We have lived under the present system. The country is prosperous and I am willing to work as many hours a day as anybody wants to work. I am not willing to make a guess now as to the period of time when we will know just what the best measure to meet the conditions of the country will be. That is the way I feel about it. I am willing to work, and keep on working; but I am not willing to set a time for stopping now.

Senator SHAFROTH. Do you not think that we will be able to cover all that is necessary by Saturday week?

Senator REED. If we do, when we come to Saturday week we can say so.

Senator NELSON. We will know better when we come to the end of the week where we stand; we can determine better then.

Senator WEEKS. Mr. Chairman, there is a resolution introduced by me which has been referred to this committee, and I am likely to call it up at any time, because I think the members of the committee can see that it is likely to take most of the fall to get this bill reported out; and if it is going to take as long a time as that, the other Members of the Congress, both Senate and House, had better be given an opportunity to go home.

Senator REED. I would not want to say on that that it was going to take most of the fall.

Senator WEEKS. I do not know that it is, but I think it is going to take some time.

Senator REED. There are men representing great banks coming here asking to be heard. Now, I want to hear them. I want to hear these great bankers——

Senator NELSON (interposing). I do.

Senator REED (continuing). And I want to hear some little bankers, also.

Senator BRISTOW. That is what I want to hear—some of the little bankers.

Senator REED. And if there is anybody wanting to be heard from other classes of people, I want to hear them.

Senator SHAFROTH. But the Monetary Commission published volume after volume upon this subject.

Senator BRISTOW. But the Monetary Commission did not have the men I wanted to hear. I want to hear the men who are affected by it, not the big men.

Senator SHAFROTH. Well, the men who were affected were here.

Senator REED. I might not be any better satisfied with their investigation of witnesses than I am with their conclusion.

Senator SHAFROTH. I think we ought to fix the time when we will close the hearings, because it is then going to take up a great deal of time to get up these amendments and report them; and I feel that otherwise we will not be making the headway that we should; and I think we have had two weeks or more of hearings——

Senator REED (interposing). Has there been any day that we have not found out something new?

Senator SHAFROTH. That might be true.

Senator REED. If the hearings were closed Saturday night we might not have discovered something of great value. Perhaps the members of the committee discovered it; perhaps they had their minds on it; but certainly we had no discussion of the very important thing discussed here this afternoon, namely, whether the Federal Government ought to be compelled to pay all this money in these banks and have no means of securing a gold reserve of its own.

Senator NELSON. And no security for the deposits.

Senator REED. I would rather sit here a month and find out nothing at all for the whole month and then find a thing of that kind than I would to discover it 30 days after the bill had gone into effect.

Senator HITCHCOCK. Mr. Chairman, I move that we adjourn until 10 o'clock to-morrow morning.

(Thereupon, at 5.50 o'clock p. m., the committee adjourned until to-morrow (Tuesday), September 23, 1913, at 10 o'clock a. m.)

TUESDAY, SEPTEMBER, 23, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.20 o'clock a. m.

Present: Senators Hitchcock (acting chairman), Reed, Pomerene, Shafroth, Nelson, Bristow, McLean, and Weeks.

Senator HITCHCOCK. As there seems to be a quorum present, I think we had better proceed. Mr. Untermyer, will you resume your statement of yesterday?

Senator BRISTOW. I was not through with the interrogatories I had started to make, Mr. Chairman.

Senator SHAFROTH. But had we better not hear Mr. Untermyer through before asking him any questions?

Mr. UNTERMYER. May I make a statement before you ask your questions, Senator Bristow?

Senator BRISTOW. I had started out on a line of inquiry in regard to the things about which you testified yesterday; but I was diverted by other Senators breaking in with questions.

FURTHER STATEMENT OF SAMUEL UNTERMYER, ESQ., OF NEW YORK CITY.

Mr. UNTERMYER. I should like to make just this suggestion, if I may: I find in some of the morning papers a statement which rather misinterprets the intent of what I said, or wanted to say, yesterday with respect to the possible political influence of this reserve board upon the currency system of the country. I have been reported as saying that with my imagination I could conceive of a situation in which such political influence might be exerted. As I remember the occurrence, I was asked the question as to whether or not I could conceive of a set of conditions resulting in such unwholesome influence; and I said that with my imagination I could conceive of that, but that I did not believe it probable, or even possible; and I wanted to be understood as saying that I did not regard the danger from any such source as within the range of possibilities; and that I saw no objection but great advantages to the Nation through its Executive having the control of the system through the appointment of the board and of every member of it, and having no banking representation whatever upon the reserve board.

It seems to me that it is incongruous that there should be any banking representation on the Federal reserve board, because that board is dealing with the reserve banks that are controlled by the bankers. They come to that board with certain classes of paper, and they say to the Government, "We want you to issue currency for this paper." Now, surely they ought not to be permitted to sit on both sides of the table—to be represented on both sides of the bargain, if I may so term it.

Senator HITCHCOCK. You are referring now, Mr. Untermyer, to the question I asked you?

Mr. UNTERMYER. I think so, sir.

Senator HITCHCOCK. Well, I did not ask the question with a view to suggesting that bankers should have a seat or a representation upon the board.

Mr. UNTERMYER. I know you did not, Mr. Chairman.

Senator HITCHCOCK. But rather for the purpose of indicating that there ought to be some check by law upon the discretionary power of the members of the board.

Mr. UNTERMYER. Yes; I quite appreciate that. I know your question had no reference to the constitution of the board itself.

Senator HITCHCOCK. No.

Mr. UNTERMYER. But, answering the demand of the bankers for representation on the board, it seems to me that it is an unjustifiable demand.

Senator SHAFROTH. Mr. Untermyer, the rule, as I understand it, or the reason why bankers are not permitted to sit on the directorate of what is called the court of directors of the Bank of England, is because it would give to any banker actively in business the advantage of knowing when the discount should be raised or lowered; and inasmuch as the raising or lowering of the discount has a tendency to affect the market price of bonds and stocks, it would give an unfair advantage to that director connected with the bank which deals in such things, and therefore it would not be "compatible"—is the word they use—for a banker in active business to sit on the court of directors.

Mr. UNTERMYER. I think that the further reason has often been stated that they would be dealing with themselves. For instance, the Bank of England has no member on its board who is connected with any bank of deposit; that is, any bank that accepts deposits. Six out of its 17 or 21 directors—I forget the number—are what you may call "merchant bankers." They are merchants, primarily.

Senator SHAFROTH. They are not banks that receive deposits, though?

Mr. UNTERMYER. No; they are not banks of deposit, and they are, as I say, primarily merchant traders. You take, for instance, the Rothschilds, who are popularly supposed to be the great bankers of the world. Their business is, and always has been, primarily that of merchants. They drifted almost unconsciously into banking by reason of their activities as merchant traders. To-day they are the largest dealers in the world, or among the largest dealers, in copper, coffee, oil, rubber, and a number of other products. They buy and sell and deal in more of those products, on commission and otherwise, than almost any other people in the world.

And so with other men who are regarded by us as primarily bankers. They became bankers because, first, they bought the product and sold it, and then they took it on consignment and loaned on it; and they were dealing in merchandise, and that is the way these men drifted on to the board of the Bank of England. There are a number of such men, like Sir Cecil Hambro, and a member of the firm of Kleinwort, and a member of the firm of Schroeders, and two

or three others of that kind; but no member of any bank that accepts deposits is on the board.

Senator HITCHCOCK. Senator Bristow was asking you some questions yesterday, when he was interrupted. I suppose he wishes to resume.

Mr. UNTERMYER. Do you not think that I should state first, seriatim, the recommendations and objections I have with respect to this bill, and then resume the examination, Senator Bristow? I should prefer to go on with my statement now, if that is agreeable to you.

Senator BRISTOW. That would inject a lot of other matter into the discussion; and I probably would not get to this at all until late to-night.

Mr. UNTERMYER. Well, I want to leave the city to-day, Mr. Chairman, if I may. Even if I must come back, I must get away on the 3 o'clock train.

Senator BRISTOW. We were discussing yesterday, when some other things came up and interrupted us, and I am not complaining because the other members of the committee took up the questions as they did, because I think all the questions were pertinent, and I was glad to have Mr. Untermyer's views on the collateral matters. But we were discussing the question as to why the individual bank should not be permitted to go direct to a governmental agency and get the currency, instead of creating what seems to me to be this superfluous and unnecessary machinery to enable the bank to get it. And your objection to that, Mr. Untermyer, as I understood it, was that it would be impracticable of operation.

Mr. UNTERMYER. I had a number of objections, Senator Bristow, a few of which I had enumerated when I was interrupted.

Senator BRISTOW. Yes. Well, that was the objection that impressed me the most: there would be so many of them.

Mr. UNTERMYER. And then the inadequacy of security, as compared with under the other method.

Senator BRISTOW. And the inadequacy of security. Now, as to the inadequacy of security——

Senator REED (interposing). Senator Bristow, may I interrupt you?

Senator BRISTOW. Certainly.

Senator REED. I just came in. What is it you are discussing?

Senator BRISTOW. We are undertaking to take up the subject where we left off last night, as to the inadequacy of security which Mr. Untermyer suggests of the individual bank in going direct to the Government and getting the currency upon its own initiative, with its own assets, instead of having to get it in this roundabout way——

Senator REED. I have a table prepared on that, which will be read in a few minutes.

Senator BRISTOW. Yes; I have a statement prepared by a bank in Kansas, and your table can follow that.

Mr. UNTERMYER. Another suggestion which I made yesterday was that there would not be that same supervision possible. It would have to be done through a single local agent—that is, the examination of the paper, instead of having the concensus of opinion of a representative board.

Senator BRISTOW. Yes.

Mr. UNTERMYER. And I named three or four grounds of objection, but there are others.

Senator BRISTOW. Yes; I remember. But now, I want to take up, first, the matter of security. Senator Hitchcock suggested that the bank be permitted to issue 75 per cent of its capital stock in this currency. I would not have any objection personally to it issuing its full capital stock.

Now, let us see what security the National Bank of America, of Salina, Kans., would have. I happened to find in a paper last night this statement:

> Suppose it was permitted to issue $100,000 of currency on its assets. Now, what security would the Government have behind that $100,000? The bank has $100,000 capital stock, $50,000 surplus, and $33,000 undivided profits. Now, let us take its resources. I think that probably would be better. Its loans and discounts are $776,000——

Mr. UNTERMYER (interposing). Its resources—its net resources—are all summed up, it seems to me, in its capital, surplus, and undivided profits. Those are its resources.

Senator BRISTOW. Yes. But in counting the strength of the regional bank you took in its deposits; and if you count the deposits, or its loans and discounts, as a part of its assets and its security, then you must give the local bank the same credit.

Mr. UNTERMYER. That is quite true; we counted its deposits, because the Government has, upon the issue of this currency, a first lien upon all of these assets.

Senator BRISTOW. Then make it a first lien upon all these assets of the individual bank, just as you do in the case of the regional bank. Put them all on the same basis. And I think it can easily be demonstrated that to-day the local bank has more security, a larger percentage of security, behind the deposits than the regional bank.

Mr. UNTERMYER. I differ from you radically.

Senator BRISTOW. Well, you may differ from me radically, but I think it has; it is because you have not examined the facts. I think after we get through you can take in their position.

Mr. UNTERMYER. It seems to me you can never compare the responsibility of a single debtor with the responsibility of a whole section of debtors all combined, all of whose responsibility stands behind each item of credit.

Senator BRISTOW. Yes.

Mr. UNTERMYER. And distributed. It does not depend upon the operations of anyone concerned. I think, Senator Bristow, in all fairness, that it is pretty difficult to compare the two. One bank cashier may go off overnight with all the funds in the case of the individual bank.

Senator BRISTOW. But he can not carry off the assets.

Mr. UNTERMYER. I do not know about that.

Senator BRISTOW. He might carry off the cash in bank.

Mr. UNTERMYER. I have known them carry off the assets.

Senator BRISTOW. He might do the same thing for the regional bank, so far as that is concerned.

Mr. UNTERMYER. Hardly.

Senator REED. Senator Bristow, may I interject a question here?

Senator BRISTOW. Yes; certainly.

Senator REED. Now, in all fairness, Mr. Untermyer, does not the law of averages come in there as a protection?

Mr. UNTERMYER. The law of averages, Senator Reed, would come in when you are dealing with the reserve bank, because you are then dealing with 2,000 banks. But when you deal with but one bank the law of averages is much less pronounced; that is, there are a certain number of chances in a given number that that one bank will be mismanaged or go to pieces. But the chances of all those banks in a reserve bank going to pieces or being mismanaged are vastly less.

Senator REED. Yes; I understand that principle you express, but——

Mr. UNTERMYER (interposing). You do not differ from it, do you?

Senator REED. But, if the Senator will pardon me, there is just one further question.

Senator BRISTOW. Certainly.

Senator REED. The Government in advancing the money to these bankers will charge an interest of some amount. Do you entertain the slightest doubt that 2 per cent interest would speedily accumulate a fund that would make up for any loss through the failure of any individual banks?

Mr. UNTERMYER. Oh, I should say that less than 2 per cent interest would make up such a fund.

Senator REED. So that if you have a system so large, made up of so many constituent elements, that the aggregate received by way of interest will accumulate a fund that will take care of any individual failure, then the law of averages applies, just as it does in insurance; is that not correct?

Mr. UNTERMYER. Well, that is the revival of the bank guaranty.

Senator BRISTOW. Do not say "revival."

Mr. UNTERMYER. I mean to say that is the application of the theory. I did not mean to use the word "revival" of it; but it is an application of the theory. [Laughter.]

Senator REED. It is an application of the bank guaranty to the extent of the money issued, but not to the extent of guaranteeing its liabilities?

Mr. UNTERMYER. Well——

Senator REED (interposing). But I want to say now, lest I should forget it, that before this bill is finished I hope there will be something done to make the deposits of people a little more secure than they are now. But I am finished now, Senator Bristow.

Mr. UNTERMYER. I had not intended to imply any opinion on the subject, because I have not been asked; and I find that I have quite enough to do to answer the questions I am asked.

Senator REED. I understand.

Senator BRISTOW. Now, let us take the assets of this bank at Salina, Kans., that would be security for the $100,000 currency. It has loans and discounts of $776,000—I will just use the round figures. United States bonds to secure circulation should be counted in this, because that is a part of its assets; it owns its bonds.

Mr. UNTERMYER. But it has circulation out against that.

Senator BRISTOW. It has circulation on that. Well, if the national-bank currency is permitted to stand as it is now, that should not be

counted. If it is not, but is retired and this currency is substituted for it, as is proposed in this bill, that should be counted to the extent that they are retired.

Mr. UNTERMYER. Yes; but you will have to pay for it if it is retired; so in no event should it be counted.

Senator BRISTOW. Well, we will not count that.

United States bonds to secure deposits.

We will not count that either.

Other bonds to secure postal-savings deposits.

We will not count that, although it is an asset of the bank.

Bonds, securities, etc., $10,000.

That is an asset.

Mr. UNTERMYER. You would not make this a lien on the postal savings deposits, would you?

Senator BRISTOW. No.

Mr. UNTERMYER. Otherwise, you would not have any postal savings deposits.

Senator BRISTOW. No; I would not make it a lien on that. So I did not count that.

Due from national banks (not reserve agents)	$60,000
Due from State and private banks and bankers, trust companies, and savings banks	15,000
Due from approved reserve agents	148,000
Checks and other items	9,000
Exchanges for clearing house	3,000
Notes of other national banks	5,000
Specie	33,000
Legal tender notes	18,000

Now, it has redemption funds, but that we will not count.

Those are live assets, and the aggregate is $968,000, as I have summed it up rapidly.

Now, there are $968,000 of assets. The Government has $100,000 of the best paper in the bank, which it requires it to be——

Mr. UNTERMYER. Yes, sir.

Senator BRISTOW. Hypothecated; and behind that is $868,000 of the assets of the bank. And, in addition to that, the double liability of the stockholders, or $100,000 in addition, as a liability against the directors.

Do you not think that will be pretty good security?

Mr. UNTERMYER. I do not think it will compare with the security you would get under the other method. And besides each bank has a separate showing. Some are weak and some are strong, and you can not take one bank and make that an illustration of what would be the security behind each bank; you do not propose, as I understand it, to examine into the total assets and responsibility of each bank when it comes for currency; you only propose to examine into the collateral.

Senator BRISTOW. Certainly.

Mr. UNTERMYER. I should think you would simply examine the collateral and issue the note upon that. But if you are going into the operation of taking up the responsibility of each bank—its total responsibility—why then it seems to me that you are going into an almost endless task.

Besides that, your whole question assumes limiting the currency to the capital of the bank. It seems to me that the issue of currency should not be limited to the capital of the bank, but to the character of the collateral that is offered by the bank. If you are going to limit the currency that is issued to the capital of the bank, you will simply substitute one inelastic system of currency for another. You have got a basis of that kind now in your bond issue.

Senator BRISTOW. Well, the bank does not have to take out any.

Mr. UNTERMYER. The bank does not have to take it out now, either. But you are not giving us an elastic currency, if you are going to make the capital of the bank the criterion of the currency to be issued, rather than the commercial paper which the bank presents.

Senator BRISTOW. I am giving you exactly the same currency that you are advocating, except that behind that currency I propose the individual bank instead of the regional bank.

Mr. UNTERMYER. No; on the contrary, under the present bill the amount of currency the bank may get is not limited, as I recall the bill, to the capital of the bank. I have not found any such limitation.

Senator BRISTOW. No; there is no such limitation.

Mr. UNTERMYER. No; so that there is no analogy between the cases at all.

Senator NELSON. This bill is an asset currency bill.

Mr. UNTERMYER. Yes.

Senator NELSON. Based upon the assets of the bank.

Mr. UNTERMYER. Certainly. And, therefore, I say that should be the basis of the issue and not the capital of the bank. The capital of the bank has nothing to do with it. It is the assets that constitute the basis for issuance of the currency. Therefore one bank with $100,000 of capital might have $1,000,000 of good, sound commercial paper, and would be better entitled to currency than some other bank with $1,000,000 of capital that only had $100,000 of good commercial paper.

Senator BRISTOW. Well, I am perfectly willing to waive that objection, so far as I am concerned. Senator Hitchcock made that suggestion, and I simply took it from his point of view. But I made the suggestion that I would prefer to take the assets of the bank, and when the bank wants to issue the currency, let it do so without having to ask it as a favor from a regional reserve bank that will be controlled by some personal interest, the same as any other bank is.

Mr. UNTERMYER. You would not give the central authority any discretion as to whether it should issue currency when the bank presents its assets?

Senator BRISTOW. Not any more than it has now with a national bank.

Mr. UNTERMYER. Well, do you not see that if you take your illustration and remove the limitation of capital, then this bank to which you have referred, having seven hundred thousand odd dollars of commercial paper, could go to the Government direct and ask for seven hundred thousand odd dollars of currency?

Senator BRISTOW. No.

Mr. UNTERMYER. Instead of having 8 for 1, then, it would have 1½ for 1.

Senator BRISTOW. You are assuming a thing I have not stated.

Mr. UNTERMYER. But if you remove the limitation of the amount you can borrow to the amount of capital, that is the result.

Senator BRISTOW. Well, but if you will permit me to correct your assumption——

Mr. UNTERMYER. Well, perhaps I speak too rapidly, Senator Bristow.

Senator BRISTOW. No; not at all. When the individual bank presented to the comptroller the securities which the law prescribed that it should have in order to obtain this currency, then it has the right to it; and let the law define what those securities shall be. No one will be foolish enough to say that it could get currency on its entire assets.

Mr. UNTERMYER. That is, all good commercial paper.

Senator BRISTOW. Well, commercial paper I do not think is entitled to any more consideration than a mortgage or a bond.

Mr. UNTERMYER. There we could never agree.

Senator BRISTOW. We very radically differ.

Mr. UNTERMYER. Yes; and could never agree on that.

Senator BRISTOW. Because I think this commercial-paper proposition is in the interests of a certain class of the people and it is establishing a currency system for the benefit of a few merchants instead of for the Nation.

Mr. UNTERMYER. It really establishes a currency for the Nation, if you will look at the experience of other countries.

Senator BRISTOW. Now, if the individual bank should present a certain security for this currency which the law defines, then it would meet your suggestion that the currency would be issued on the assets or security that was presented, would it not?

Mr. UNTERMYER. Yes; it would meet that objection, but it would not meet the objection that that is not sufficient security.

Senator BRISTOW. Not sufficient. But suppose it is what the law requires, then what would you say?

Mr. UNTERMYER. The law might require none at all. That would not alter the fact that there is no security behind the currency issue.

Senator BRISTOW. Yes.

Mr. UNTERMYER. And I would still think it was insufficient.

Senator BRISTOW. But you stated that you did not think we ought to take the reliability or the assets of the bank, or the financial strength of the bank, or anything connected with that; we ought simply to look at the security that was presented and issue the currency on that security.

Mr. UNTERMYER. Yes; the security that is presented, with all the backing of one of these regional banks.

Senator BRISTOW. Well, but you are willing to take the strength of the regional banks into consideration but not the strength of an individual bank.

Mr. UNTERMYER. No; not the strength of the regional bank alone, but the strength of the regional bank together with the strength of all the constituent members of that bank. That is what you get when you issue security to a regional bank. You get the uncalled capital of all those banks. You get the law of averages. You get a variety of factors that do not begin to come into existence when you are dealing with a single bank.

Senator BRISTOW. You get no more factors that are not in existence than when you deal with the individual bank, except that you are dealing with a larger amount, or a number of those factors—a greater aggregate of those factors—and they are standing for a greater aggregate of debts, are they not? The individual bank might take out $50,000 in currency; the regional bank might take out $5,000,000 or $10,000,000 or $20,000,000.

Mr. UNTERMYER. But you are getting all the reserves; you are getting no reserves when you take the case of the individual bank.

Senator REED. Why not?

Mr. UNTERMYER. You are getting the reserves that belong to that one bank.

Senator REED. Yes.

Mr. UNTERMYER. But I am talking about the general average.

Senator BRISTOW. You are simply getting the aggregate of the reserves, then, behind the currency of all the banks instead of the reserves of one bank behind its individual currency.

Mr. UNTERMYER. And you are getting the uncalled liability.

Senator BRISTOW. The uncalled liability is 10 per cent, and behind the individual bank you have got all its liability.

Mr. UNTERMYER. So you have in these cases, because you have got the liability of that individual bank behind it. In other words, when the Government discounts paper for a regional reserve bank it has the indorsement of the member banks on that paper, and its entire uncalled liability.

Senator BRISTOW. Yes?

Mr. UNTERMYER. Apart from the 10 per cent uncalled liability of all the members.

Senator BRISTOW. Yes. There is this element which I recognize, that you have got the obligation of all of these banks combined. They are on each other's paper to sustain a volume of, we will say, $20,000,000 or $25,000,000 currency—or perhaps $10,000,000—whatever it might be, while in the individual bank you have got the same assets, the same quality of security for a limited amount of liability?

Mr. UNTERMYER. No; you have a very much inferior quality of security; you have at least 2,000 times the security when you discount for a regional bank that you have got if you discount for a single bank.

Senator REED. Two thousand times?

Mr. UNTERMYER. Yes; assuming that there are 2,000 members.

Senator BRISTOW. How do you get that?

Mr. UNTERMYER. Assuming that there are 12 regional banks, and that they are equally distributed, when the 25,000 banks of the country are distributed among the 12 regional banks it will give about 2,000 member banks for each regional bank.

Senator REED. You surely have omitted in that calculation one of the elements.

Mr. UNTERMYER. What is that, sir?

Senator REED. When a regional bank, composed of 600 member banks, is created.

Mr. UNTERMYER. I am assuming that all the banks come in.

Senator REED. I am talking about one region, now.

Mr. UNTERMYER. So am I.

Senator REED. And that will take in about 600 national banks.

Mr. UNTERMYER. I am assuming that the State institutions come in.

Senator REED. The plan will certainly work, for calculation purposes, with the 600 national banks. Now, you might assume that all the other banks came in, but that is a violent assumption.

Mr. UNTERMYER. I do not agree with you, and I do not think the thing will succeed unless substantially all the banks join, as I think they will be forced to do in self-defense.

Senator REED. And we might assume on the other hand that all the banks will stay out, which would be another violent assumption. I am taking the national banks (and they will all come in on an equivalent basis), and we will have this situation; and I think for the purpose of the illustration it does not make any difference how many come in. The regional bank is an institution existing by itself. The member banks are not joint partners and are not liable under the laws of partnership. They are stockholders, and their liability, therefore, is limited to the amount they have contributed to this corporation in the way of capital stock paid in.

Senator NELSON. And to the 10 per cent call.

Senator REED. And, second, to the 10 per cent call. Therefore, the primary liability or the primary security that is back of, we will say, $5,000,000 issued to the central bank, is the assets of the central bank which amount, now, we will say, to $5,000,000 and the right to call $5,000,000 more. Now, that is the solitary and only thing that is back of that except individual notes indorsed by individual banks.

Mr. UNTERMYER. Yes; with all the assets of that bank.

Senator REED. Now the individual note, indorsed by the individual bank, does not have—in the first place, those notes need not have come in from every bank; they might have been deposited by only a few of these banks. In the second place, that note does not have back of it, by virtue of that indorsement, all of the assets of the individual bank. The individual bank has 1,000 other liabilities and the indorsement is utterly worthless if the bank is utterly worthless, and it is worth 25 per cent if the bank's assets will pay out 25 per cent upon all of its liabilities, and it is worth 50 per cent if the bank's assets will pay out 50 per cent on its liabilities. So that you do not have back of this money, under this scheme, the aggregate capital of all the member banks.

Senator NELSON. In other words, they are not jointly and severally liable as indorsers.

Senator REED. That is exactly it.

Mr. UNTERMYER. I have not said that they were.

Senator REED. Oh, you have said 2,000 times the amount, and you can not get there.

Mr. UNTERMYER. Yes; I will get there. In the first place, when I said 2,000 times the security, I figured upon every bank being in the system—that is, in the 12 regional banks—and the regional banks would then have 2,000 member banks each.

Mr. BRISTOW. Now, Mr. Untermyer, may I interrupt you?

Mr. UNTERMYER. May I not answer Senator Reed? I think I am entitled to do so. I do not say the Government would be the sole creditor of the individual bank. I answered Senator Bristow's suggestion that the stock liability of that bank—that is, its liability for an amount equal to the par value of its capital—would be an asset available to the Government just as it would be an asset avail-

able to the Government in the case of discounts made directly for that bank, and so it would be. In other words, the Government would have behind this obligation all the assets of the reserve bank, and it would also be a creditor of the individual bank and would be entitled to a proportionate share of whatever came out of this stock liability. Now, when I say that the responsibility is 2,000 times that of the single bank, what I mean is that when the reserve bank is discounting paper for 2,000 banks if one bank goes by the board its chance of loss would be one two-thousandths of what that would be if it had only that one bank for which it was discounting. I think I am entirely right in that when you speak of the doctrine of averages.

Senator REED. Isn't this just where you come out, Mr. Untermyer? The First National Bank of Pittsburgh, for the purpose of this illustration, having a capital stock of $1,000,000, takes $1,000,000 of securities to the regional bank and indorses that $1,000,000 of paper. Now you have $1,000,000 of individual notes indorsed by a bank with $1,000,000 of capital, and that security in that shape is taken to the regional bank. Thereupon the regional bank indorses it. You have back of that particular note issue the $5,000,000 of capital of the regional bank and the $5,000,000 that can be called as against the regional bank.

Mr. UNTERMYER. And the deposits of the regional bank.

Senator REED. And that is taken to the Federal Government and the money issued.

Mr. UNTERMYER. You have omitted, of course, the reserves of the bank, if that is an obligation of the regional bank.

Senator REED. Of 33 per cent.

Mr. UNTERMYER. No; I mean of the 100 per cent, the entire reserves that are on deposit, the deposits in the regional banks, of all the banks——

Senator REED. Are included.

Mr. UNTERMYER. Are behind that loan.

Senator REED. Very well; you have this, and that does make an excellent security when we assume that all the other banks stand up, and that all that security lies there intact and unimpaired back of that $1,000,000.

Mr. UNTERMYER. It is a good security if half of them fall down.

Senator REED. Yes; but in the last analysis, what you have back of that money is the individual's note, the indorsement of the individual bank, and the assets of the regional bank. You do not have the assets of all of the banks, do you?

Mr. UNTERMYER. No; you do not have the assets of all of the banks.

Senator REED. You do not have the assets of all of the banks?

Mr. UNTERMYER. Except that part of them which is on deposit with the regional bank.

Senator REED. I understand we have already used that up. Now, we will take the case of the individual bank—this same individual bank. Well, before I do that——

Mr. UNTERMYER. Senator Reed, are you not losing sight, if I may suggest, of the all-important point, the doctrine of averages, nor of the fact that the reserves of the country can not be mobilized under your plan nor taken away from New York nor made useful to the commerce of the country?

Senator REED. Yes; but I am going now to suggest a counter danger. Suppose that this regional bank not only gets money issued in this way that I have suggested for the First National Bank of Pittsburgh, but that it gets approximately the same amount of money for all of the banks of that district. Of course in that event the assets of each of these banks would have to be added to the security. And just in proportion as you issue that money to the member banks the value of the security is lessened, so far as the regional bank's assets are concerned.

Mr. UNTERMYER. There is not any doubt of that.

Senator REED (continuing). Because the regional bank stock security becomes proportionately less and the regional bank's assets being in fact the assets of the member banks, and nothing more, it is of course finally reduced to a proposition, under this illustration, that you have got back of all of this money all the assets of all of the individual banks, and nothing more, because the assets of the individual banks swallow up the reserve bank. Now, suppose that there come some great crash, whereby the banks are closed, as they were in 1907, and this money—gold is demanded for it. You have a system, now, so tied together that if that regional bank goes down and can not redeem this money your currency has gone to pieces, haven't you?

Mr. UNTERMYER. Yes; certainly, if all the reserve banks go down. You could not have any system that would not have an element of that kind in it. There is no known system.

Senator REED. Suppose you take this as a separate transaction. Mind you, in this first illustration we have been using there is absolutely no limit upon the amount of money which may be issued, except the promissory notes—the limit fixed to the promissory notes. You can keep on issuing money as long as there are promissory notes to be deposited, if it is 5 million, 10 million, 1 billon, or 10 billion.

Mr. UNTERMYER. You mean in the regional-bank system?

Senator REED. You can in the regional-bank system.

Mr. UNTERMYER. I do not agree with you.

Senator REED. The Government, under this law, as long as there is what is called commercial paper, no matter if it goes to $10,000,000,000, can continue to issue money.

Mr. UNTERMYER. Yes; but it has a discretion.

Senator REED. But you can pyramid your credits. That is to say, now——

Mr. UNTERMYER. You have got to have your gold reserve, have you not?

Senator REED. Yes. That is to say, you can pyramid your credits in this way: You have $1,000,000 of promissory notes and you put them up and get $1,000,000 of currency. You thereupon set aside 33 per cent as a gold reserve, loan out $666,000 and get more promissory notes. You bring those notes back to the bank and come down to the Government and you get $666,000 of paper money. You take out one-third of that, $222,000, and that leaves you $444,000. You loan that out again and you get some more promissory notes, and you can repeat that operation. Have you figured out how much money can actually be issued until the gold reserve is exhausted?

Mr. UNTERMYER. I think there are a number of big holes in that argument, Senator, if I may suggest. One of them I can puncture now by reminding you that you have got to have paper all the time

that is maturing within 90 days, so that new paper is coming in and old notes are being paid off.

Senator REED. And just as it comes in now, with an enterprising banker.

Mr. UNTERMYER. In the next place, you are ignoring the fact that there is somebody in control of this system. There are people who are supposed to see to that.

Senator REED. Yes; I know.

Mr. UNTERMYER. You can take any proposition within the range of finance, business, or science, and deal with it in that way and bring it down to a logical absurdity.

Senator REED. We are trying to build up a system here that is safe.

Mr. UNTERMYER. Safe if properly administered; but no system is safe if not properly administered.

Senator REED. We are trying to build a system that, if made unsafe, the law must be absolutely breached. That ought to be the system we are building.

Mr. UNTERMYER. A single bank, you know, could do the same thing you are talking about.

Senator REED. Wait a moment, now. I differ from you. I am talking about possibilities now and what can be legally done under this law. You can keep on with this system of piling credit upon credit until the 33 per cent gold reserve has ultimately eaten up your power.

Mr. UNTERMYER. I differ from you. I do not think you can do anything of the kind.

Senator REED. Why can not it be done within the law?

Mr. UNTERMYER. I will tell you why. Because, in the first place, you must have genuine commercial paper on which to base your currency. If you have genuine commercial paper to give the Government all the time, that means that the country needs that currency for legitimate purposes. In the second place, the term of the paper is so brief that you can not accumulate any such amount of it in the succession of transactions you have suggested. That is a fictitious illustration that could not occur in the course of events; and, in the third place, all checks of Government control that would render such a situation impossible are ignored. You have all the bars down. You are assuming everybody is away; everything is open, that all they have got to do there is to put something in the slot and automatically pull currency out.

Senator REED. Now, you are too good a lawyer to mistake my illustration. In the first place, I am dealing with the possibilities of the law.

Mr. UNTERMYER. I know you are.

Senator REED. I am leaving out this wise, prudent, supervision which we hope and pray for, but which may or may not always exist.

Mr. UNTERMYER. Every country would be bankrupt if we acted on the assumption that discretion did not exist in the direction of public affairs.

Senator REED. The only limit that is put in this bill on the amount of money that can be issued is the 33⅓ per cent gold reserve which must be set aside.

Mr. UNTERMYER. And the character of the paper.

Senator REED. And the character of the paper.

Mr. UNTERMYER. That is the essential thing.

Senator REED. Now, you think we have finally reached a time when that class of paper, which is here denominated commercial paper, would no longer exist.

Mr. UNTERMYER. I am not speaking of the paper here denominated, because the paper here denominated, Senator Reed, is too loosely denominated.

Senator REED. Very well.

Mr. UNTERMYER. I am speaking of the paper that you have denominated.

Senator REED. The paper you would denominate as prime commercial paper. Now, you can not tell us the amount of that prime commercial paper that is in circulation now, or that has been in circulation at any period of the country's history, can you?

Mr. UNTERMYER. No; and I do not know that there are——

Senator REED. There is not a human being on this earth that can approximate it, is there?

Mr. UNTERMYER. I do not think so.

Senator REED. Then we are proposing, under this bill, to issue a currency the limit to which, under the law, is a 33⅓ per cent gold reserve, which, I grant you, is a limit to that extent on the amount of commercial paper; and nobody knows, and nobody can make an approximate estimate, of the amount of that commercial paper.

Mr. UNTERMYER. But you have got a check on the amount that can be issued in the fact that the regional reserve bank is not going to allow inflation in its district. If it chooses to do so, the Government is not going to allow undue inflation. It has a right to stop and say, "We won't do any more."

Senator REED. That comes back again not to what the bill requires, but what the managers may do.

Mr. UNTERMYER. There is no system that can be devised on any other basis.

Senator REED. I think I have one.

Mr. UNTERMYER. Well, the world will acclaim you.

Senator REED. No they won't acclaim me.

Mr. UNTERMYER. Oh, yes; all nations will acclaim you.

Senator REED. It is not anything marvelous now; it has been already suggested. I am coming now to the suggestion of Senator Hitchcock.

A bank can not organize, in the first place, under the law without putting up its capital stock in cash against it.

Mr. UNTERMYER. No; it can not.

Senator REED. And, as long as it does put up its capital stock in good hard coin of the realm, that is solid, isn't it?

Mr. UNTERMYER. Until it is punctured.

Senator REED. Until it is punctured, stolen, or carried away.

Mr. UNTERMYER. Or legitimately lost.

Senator REED. You need not have injected that into it, because that is true of your regional bank. That is true of the Federal Treasury; that is true under any banking laws and that is true everywhere; and where it is lost in a bank, if we have any kind of Government supervision, it is going to be found out it is lost, and then we cease doing business with that concern.

So let us come back and get down to the question of the hard dollars that are paid in, and let us say it is $1,000,000 of gold coin, the paper that is as good as gold, issued by the Government. We have that.

Mr. UNTERMYER. You mean that a bank starts with a million of capital.

Senator REED. Yes. It is not possible, now, to conceive of so many banks being organized and money paid in that we run away there, because there is a limit to the money that is paid into it—a natural limit. We have a total liability, then, of the stockholders of $2,000,000, $1,000,000 of which is absolutely in the Treasury and $1,000,000 of which is in the liability of these men. Now, a bank thus organized wants, under Senator Hitchcock's suggestion, some money. It goes down to the Federal Treasury and shows it has this unimpaired capital, and it gets $750,000 of paper currency issued to it—no; $500,000 of paper currency issued to it. And what was your gold reserve?

Senator HITCHCOCK. I did not discuss the question of the gold reserve.

Senator REED. I am going to assume that it gets $500,000 of capital currency issued to it and has a 50 per cent gold reserve.

Mr. UNTERMYER. You mean in its vaults.

Senator REED. Yes. It is required to keep back, out of the money it gets, a gold reserve equal to 50 per cent.

Mr. UNTERMYER. But it offers no security for this money.

Senator REED. Just wait a moment. In order to get this money it is limited to three-quarters of its capital stock. It has got to do two things. It has got to create a gold reserve of 50 per cent and it has got to put up notes of its customers for the other 50 per cent. Now, I am talking about the question of inflation, of the creating of a system that won't run away, and that bad management, less stealing, will not permit to run away. Your note issue in that event is absolutely limited to 50 per cent of the capital of the national banks.

Mr. UNTERMYER. It is an inelastic currency; it is worse than the present currency.

Senator REED. Let us see if it is inelastic. Let us be fair.

Mr. UNTERMYER. That is what I assume, that you want to be fair——

Senator REED. Certainly.

Mr. UNTERMYER. And you must assume I want to be fair.

Senator REED. Your currency you are discussing under this bill is inelastic when it reaches a point where the gold reserve and the lack of commercial paper has put the brakes on. It ceases at that point to be elastic.

Mr. UNTERMYER. No; it has supplied the commercial needs. In other words, it is measured by the amount of genuine commercial paper that is outstanding instead of being measured by the capital of the bank.

Senator REED. Let us see if the other is not equally elastic, though working upon a different principle. There is money enough in the country to-day to fairly transact the business of the country—to meet the demands of business. You are a banker and you want more

money. Why? Because your customers need it. You go down to the Federal Treasury to get it, and when the Federal Treasury issues it to you they charge you interest, and you will not take the money out unless you can use it and make more interest than the Federal Government is charging you. If you keep the money longer than a certain length of time, the interest rate is raised. Now you have got to the place where you can get money when it is necessary, hence you can extend it. You can streteh the rubber band, as somebody said the other day. You then, by virtue of these interest charges, are going to curtail it; you are bound to bring it back within a given time; and you have a currency that will expand every time the bankers find they need the money for legitimate business; and you have a currency they are compelled to contract whenever the interest rates get high enough. And is not that elastic?

Mr. UNTERMYER. No.

Senator REED. Then you and I differ in our conclusions.

Senator NELSON. That is the Vreeland bill.

Senator REED. Certainly; it has the principle of the Vreeland bill in it.

Mr. UNTERMYER. Except it is more liberal in the character of security than the Vreeland bill. The objections are these, if I may say: In the first place, the automatic increase of the interest rate may be such a great hardship upon business that it does not furnish elasticity at all. Business may need money—legitimately need it—legitimately expanding business—and if you are going to put a prohibition upon it by a purely ascending rate of interest that is automatic at given times you are not going to supply the needs of business at all. That is No. 1.

Senator REED. But, Mr. Untermyer——

Mr. UNTERMYER. Won't you let me finish?

Senator REED. I will; but I think we might get along better——

Mr. UNTERMYER. I think you might let me finish one answer, because I have not been able to do so thus far.

Senator REED. I want to get your opinion upon it. You and I are not trying to fence.

Mr. UNTERMYER. Certainly not.

Senator REED. Suppose we raise that interest every month, two months, or three months, a certain amount and we put in this discretionary element to leave it to some central bank to raise the interest as that board thought it necessary. That would be leaving it to some Federal board to raise the interest as that board thought it was necessary.

Mr. UNTERMYER. That you are doing now under this bill.

Senator REED. Suppose you added that.

Mr. UNTERMYER. Let us just take your illustration and see what a dangerous sort of security that would be. It is secured really only to the extent of 50 per cent. The rest of the other security is in the way, as I understand it, of commercial paper and the stock liability of the bank. Is not that right?

Senator REED. I do not agree with you on that.

Mr. UNTERMYER. Is not that your illustration. As I understand it, you say you would take commercial paper for the currency which would be issued at par, and 50 per cent of that would have to go into

a gold reserve and the other 50 per cent would be available for general use——

Senator REED. Yes.

Mr. UNTERMYER (continuing). As against that $100,000 of currency we will say you would issue and you would present $100,000 of notes, and $50,000 would have to go into a gold reserve and the other $50,000 would——

Senator REED. Now, we have $50,000 of liability, because the gold reserve takes care of the other $50,000.

Mr. UNTERMYER. Yes.

Senator REED. What is back of that $50,000?

Mr. UNTERMYER. This $100,000 of notes and the stock liability of the bank.

Senator REED. Yes; and the bank's capital.

Mr. UNTERMYER. And the bank's assets.

Senator REED. Five to one, is it not?

Mr. UNTERMYER. You assume that you would borrow $1,000,000, or $750,000?

Senator REED. I took $1,000,000 capital. You just went to the $100,000 illustration, and I went there with you.

Mr. UNTERMYER. Now, then, so far as concerns the stock liability the uncalled liability of individuals on stock, I think, that the experience of the Comptroller of the Currency demonstrates that that is not a very collectable asset were you to ask for it.

Senator REED. That is true of the regional bank system.

Mr. UNTERMYER. That is true of the regional bank system, because your 10 per cent individual capital is payable by the bank.

Senator REED. That is, however, of no value for the banking business.

Mr. UNTERMYER. It is only to pay 10 per cent, and it has 100 per cent to collect; so that it is 10 for 1 which it is able to collect.

Senator REED. Our lien is not prior to the other liens on that.

Mr. UNTERMYER. Yes; you have a prior lien on everything of the bank, as I understand it—for the 10 per cent; not for the general stock liability—so that the uncalled stock liability of individuals in a failed bank experience has not shown to be a very valuable or tangible asset.

Now, all you have left behind this currency are the notes—the assets of that one bank and the promissory notes or the bills that have been put behind it. You would not have anything like the security that is offered by this bill.

Senator REED. On the contrary, I think it is better; and I think it is better for this reason—I have got some figures on it——

Mr. UNTERMYER. Of course, you are assuming that the Government is a preferred creditor in every event.

Senator REED. I mean that the Government is a preferred creditor, and if I were drawing this bill I would make it a preferred creditor not only for the stock bank, not only as far as the currency is concerned, not only for the double liability, but for every asset the bank has.

Mr. UNTERMYER. I think that is wise.

Senator REED. If you do that and you have any kind of an inspection at all I insist that, barring plain, cold larceny, you are bound to

have ample security; and for this reason: Here is a bank with $1,000,000 capital. It is to be inspected. If that inspection shows that the bank has not got deposits at least equal to its stock—in fact, four times the amount of its stock—then any bank examiner in the world would know that that institution was rotten to the core. He would not need to know any more.

Mr. UNTERMYER. But when trouble comes I tell you those deposits disappear pretty rapidly.

Senator REED. They may.

Mr. UNTERMYER. You can not count on those deposits. One of the reasons why I say it is not comparable to the security offered by this bill is because of the law of averages, because of the fact that when you have 2,000 banks in one regional reserve bank and 1 fails, or a dozen or 20 fail, it is not as though the Government had a separate loan with each bank, where, if one bank fails it can not make it up out of the others. There is not any resort to the law of averages there, which would tend to the safety of the issue.

Senator REED. I understand, Mr. Untermyer, perfectly, and I frankly concede that just to the extent that the regional bank has capital and its indorsement of this paper it puts up with the Government adds to the value of the paper.

Mr. UNTERMYER. But, apart from the question, Senator Reed, of the capital, still more important and a still greater security by far than the capital or the assets of the regional bank is the fact that it has, we will say, 2,000 banks, and they are not all going to fail. Whereas if the Government is dealing with each bank separately it is dealing on the assets of each bank, while if it is dealing with one institution that has all the assets of 2,000 banks it is dealing on the law of averages, which is the only safe law upon which to conduct a financial transaction of that kind. There can be no question about that.

Senator REED. Let us understand this: You do not mean to say that if a regional bank gets a billion dollars of money issued to it that all of the assets of the 2,000 member banks is liable for that billion dollars?

Mr. UNTERMYER. No; not at all. I never have suggested such a thing. What I do mean is that if it gets a billion dollars of bills receivable or bills of exchange, that the chances of loss among those hundreds of thousands of bills of exchange are mimimized against the bills of exchange of one individual bank in one city or one locality affected by one catastrophe.

Senator REED. But now, following that out, we will assume that one member bank, in dealing with the Federal Government, puts off upon the Federal Government a lot of bad paper and the Government loses its money. It might do the same thing to the regional bank, might it not?

Mr. UNTERMYER. The loss would not be appreciable.

Senator REED. I am talking about what it can do to the regional bank. It might do the same thing to the regional bank it does to the Government, and the loss, instead of falling directly upon the Government, would fall upon the regional bank.

Mr. UNTERMYER. Yes.

Senator REED. You say the regional bank can stand that because it has so many banks and is dealing with so many banks that the loss would be distributed.

Mr. UNTERMYER. It would be infinitesimal.

Senator REED. If it is infinitesimal to a regional bank with 2,000 member banks, it would be equally infinitesimal to the Federal Government dealing with not 2,000 banks but with 25,000 banks.

Mr. UNTERMYER. On the contrary, in the one instance the Federal bank does not sustain any loss; in the other instance, the Federal bank does. The regional bank has to take that loss.

Senator REED. Do you think the regional bank can stand that loss?

Mr. UNTERMYER. Very readily.

Senator REED. If the regional bank, that has no assets except that which it gets from the bank, can stand that loss and can afford to stand that loss because it is distributed in the way you have spoken of, why can not the Federal Government.

Mr. UNTERMYER. In the first place, the regional bank is making it up; it is earning money against that loss. In the second place, and still more important, the currency of the Government must have such confidence that there must not be the possibility of any loss occurring in any security for which the currency is issued. As soon as there is a possibility of such a thing the currency loses value and stability. But still more important, and what is in itself fatal to your plan, without regard to the many other considerations that in my judgment renders it impossible, is the fact that you provide no means of mobilizing the reserves. Are they to be used as now, by being sent to New York for stock speculation, instead of remaining, as they do under the bill, where they belong and for the use of legitimate business there?

Senator REED. Let us go back to the question of how the regional bank can sustain the loss. You say because it is making money. It has an income. Now, if the Federal Government issued its money direct and charged an interest for it, it would have an income, would it not?

Mr. UNTERMYER. Yes.

Senator REED. And if we take the loss. If we take the law of averages, of bank failures, total failures of national banks, or partial failures, they do not amount in the aggregate—I am taking the average over the years—to more than about——

Senator BRISTOW. One-twentieth of 1 per cent for the last 50 years.

Senator REED. One-twentieth of 1 per cent for the last 50 years of deposits, which, of course, could not be exactly applied to the currency which would be issued, but it shows the amount and I believe, you said, that 2 per cent collected upon the notes would make up, and more than make up this loss.

Mr. UNTERMYER. I can imagine it would more than make it up; but there is another consideration that I think you have left out of sight, and that is that the Government should not have imposed upon it the task of passing upon the character of commercial paper which would be presented to it. That is another question.

Senator REED. Let us stick to the question we are now considering.

Mr. UNTERMYER. There are dozens of consideration that occur to one against, the practicability of such a plan.

Senator REED. Let us thrash them out one at a time. Let us stick to the question of whether the Government can afford to do it. If 2 per cent would create a fund that would take care of the failures and the Government should loan its money out, at say, 4 per cent, then we would get a fund that would take care of the failures two or three times over and with the great law of averages, namely, that where you have 25,000 banks, the chances of failure are distributed and the income comes in from all the 25,000 banks to meet the failure of the one. I want to know now, why the Government of the United States can not do that safely so far as this one consideration is concerned.

Mr. UNTERMYER. So far as the one consideration is concerned it can. If you want to limit it to that, it can be done. It would lead to the grossest inflation.

Senator REED. Why, my dear sir, you are proposing a system here that has no limit upon it except the gold reserve which you make 33 per cent. In this case I have made the gold reserve 50 per cent. Your other limitation is simply the amount of commercial paper there may be in the country.

Mr. UNTERMYER. And the discretion of men vested with the administration of the law.

Senator REED. Very well. I have limited this to three-quarters of the bank capital and the discretion of these wise and prudent men who are never going to make a mistake in my case any more than they will in yours, but in both cases likely.

Mr. UNTERMYER. No; in the case of the present bill, Senator Reed, these men have not had imposed upon them the discretion of passing upon this paper. That discretion is exercised where the paper is passed upon.

Senator REED. You are going now to the question of passing upon paper. I am talking about the amount of currency and I insist that you have already said, Mr. Untermyer, that the difficulty with the system I am now discussing is that it is inflexible because its limits are absolutely fixed by the bank capital, and yet how can you say in one and the same breath logically that it is inflexible, because the bank capital absolutely limits, and in the next breath say that it opens the door for every kind of inflation.

Mr. UNTERMYER. That is only one of many objections to it.

Senator REED. I am speaking about that one; I want to come to the next one now.

Mr. UNTERMYER. Senator Reed, it is inflexible from the point of view that it is limited by the capital of the bank, and it is liable to inflation from the point of view that you are imposing upon the Government a duty of passing upon this commercial paper, for which it has not the machinery and is unable to supervise. It is not a governmental function.

Senator REED. Very well. Now, I am coming to the question of passing on commercial paper. In the last analysis whether a man is the agent of a bank or an agent of the Federal Government, he is simply a human being, with body, parts, and passions, and all these things have to be worked out through human agencies. That is true. I guess we will agree on that without any further talk.

Mr. UNTERMYER. That is certainly true.

Senator REED. A number of very fine gentlemen, nine of them, are put in as directors of a regional bank; three of them are practical bankers, picked by the banks, the other six are something else. The minority of this board are practical bankers.

Mr. UNTERMYER. I think that a good merchant is as good a banker as any banker. A merchant extends credit of merchandise just as a banker extends the credits of money, and many merchants have finances that are much larger than that of all the banks with which they deal.

Senator REED. That is true.

Mr. UNTERMYER. All this legerdemain about banking and expert banking and all that sort of thing seems to me much overdrawn.

Senator REED. You think a man with good common sense and some business experience can be trusted almost as well as a banker.

Mr. UNTERMYER. I think fully as well as a banker.

Senator REED. You think fully as well.

Mr. UNTERMYER. I do not say that he understands the science of finance necessarily. Of course, banking and finance are somewhat different.

Senator REED. Well, I understand now your reason for differentiating, because a moment ago, Mr. Untermyer, when I was trying to say that this board would only have a minority of practical bankers upon it you at once brought forward the idea that the other men on it might be even wiser than the bankers.

Mr. UNTERMYER. I do not believe I made any such suggestion, Senator Reed. Perhaps you thought you were going to ask me some question of that kind.

Senator REED. No; when you read the record you will find that I am pretty nearly correct. Now, this macinery does have in it an element of great merit, which I frankly admit, namely, that practically the three bankers who are on that board must realize that if they take bad paper from member banks they are liable to injure not only the bank of which they are directors but they are at the same time financially interested in it, and hence I freely grant you they will use all reasonable precaution. I want to concede to this bill wherever there is a virtue, I want to concede that virtue.

Mr. UNTERMYER. I think the virtue lies largely in the other members of the board.

Senator REED. You do?

Mr. UNTERMYER. Yes.

Senator REED. You think they are better than the bankers?

Mr. UNTERMYER. Well, I think they have less interest, because they have no paper to discount and they are supposed to represent the public interest and the commercial and industrial interests of the country.

Senator REED. And you think that, respresenting the commercial and industrial interests of the country, they are a little more to be trusted to manage this system than the bankers, who have financial interest?

Mr. UNTERMYER. I do not say that they are more to be trusted in any such sense as might be implied. I have no doubt that everybody who acts on that board will be entitled to be trusted. What I mean is, that while the bankers represent their own interests, though their financial holdings are comparatively small in this institution,

they are also people who will borrow money, while the other directors will have an entirely disinterested public point of view.

Senator REED. And you think therefore they are a little safer because of that fact.

Mr. UNTERMYER. Certainly; fully as safe.

Senator REED. Very well. Now we have got to the point, and I want to nail this point down, because I am going to use it as a point to reason from. Good men selected outside of the bankers are a little bit safer to manage a system of this kind than the bankers themselves, and now I proceed——

Mr. UNTERMYER. I said fully as safe.

Senator REED. All right. I will proceed from that point. This Federal reserve bank is located now, for the purpose of my illustration, in the city of St. Louis, in my State, and its territory embraces all of Misouri, Kansas, Oklahoma, and Nebraska, and that is about the territory it would embrace. That is a territory in which you can take all of Germany, all of France, and the Island of England and drop them down and have a little bit of space left on the side, if my geography has not become clouded. There will be within that territory about 600 national banks. They will be, many of them, 300 and 400 miles from St. Louis. How is that board of directors of that regional bank to keep in touch and have a knowledge of the business, the liability, and the safety of these various banks? It must have some machinery. What would be the machinery?

Mr. UNTERMYER. It ought very largely, in a general way, to know about its customers. That is one of the advantages of 12 reserve banks over 4 or 5.

Senator REED. I know it ought to know; but I am asking you how it will know and what will be the method?

Mr. UNTERMYER. It will have statements from these banks all the time. There will be men among these nine men who will be selected from the different regions. They will know the banks in their own region pretty well.

Senator REED. Do you think any one man will know, of his own personal knowledge?

Mr. UNTERMYER. All of them should know. Among the nine men they will know. It is a less diversified knowledge than among the great banks of to-day.

Senator NELSON. You mean more diversified?

Mr. UNTERMYER. No; it is a less diversified knowledge than would be required of the heads of some of the banks of to-day that have thousands of depositors scattered all over the country. Some of the great banks have a vast number of depositors. It will have less depositors and, I think, it will have better occasion to know in a general way about the conditions in that section.

Senator REED. But you do think that those nine men who are generally scattered in their selection over this vast empire of country I have described—for it is an empire, and that part that Senator Bristow and I live in, and I will have to include Nebraska, too, is a mighty good empire.

Mr. UNTERMYER. Haven't you included a pretty large territory for your regional bank?

Senator REED. No, sir; I think that is just about what would come in.

Mr. UNTERMYER. That would be more than one-twelfth of the territory of the United States, would it not?

Senator REED. We are in area, but I do not think we are when you come to the question of the number of banks.

But you think that those nine men could keep track of the financial conditions of these various member banks reasonably well, so that they would be able to—if they could not pass upon the particular paper brought to them by the banks—that they would at least know the bank's standing, the kind of management it had, whether it was a safe, prudent management, and whether its statement from time to time made showed that it was in a healthy condition.

Mr. UNTERMYER. Within a very few years, with the aid of the bank examinations that are required under the act, that will be true.

Senator REED. Yes. Now, I agree that they can keep a pretty close check. Do you know of any reason why if this other system that we have been discussing was adopted the Government of the United States could not form a board of nine men and through that board have exactly the same kind of intimate knowledge which would be possessed by these nine men who are directors of the regional banks?

Mr. UNTERMYER. No reason why they could not set up the same system in some other form if they choose.

Senator REED. A system which embraces the employment or requires the employment of 150 or 200 supervisors or directors will cost the banks of the country a little more.

Mr. UNTERMYER. Yes.

Senator REED. And that expense would ultimately fall on the man who does business with the bank, will it not?

Mr. UNTERMYER. Yes; any system is bound to do that.

Senator REED. Certainly; it has to go there. If the Government was able to establish the same system, it would pay the same number of men and it would not have to pay any more for that, would it?

Mr. UNTERMYER. Yes; there is no doubt of that; of course it would not be anything like as responsible a system. It would not be a local government of finance.

Senator REED. Let us see. You have said that the six members of this board who could best be trusted, or at least as well be trusted, as the bankers themselves, as the men who were not bankers.

Mr. UNTERMYER. There is no doubt about that.

Senator REED. I want to know whether it is impossible for the Federal Government, through the Treasury Department or some other great board that may be established as a permanent board, to pick wise and prudent men just as well as the bankers might pick them.

Mr. UNTERMYER. I have always felt that the Government could do it better.

Senator REED. Now, I think you have got to this point: That it is best for the Government to have an inspection system; it is best for the Government to know about the individual bank; and it is best for the Government to transact all of its business, and that it can do it as safely as the banks would do it.

Mr. UNTERMYER. If they would set up something like the same system, yes.

Senator REED. Very well.

Mr. UNTERMYER. We are discussing this system and not some other system.

Senator REED. Very well; but I am talking about whether there can not be a system that will protect the Government if the Government sees fit to issue money to individual banks, allowing that bank to preserve its independent character, and never for a moment making it subservient to any other bank or combination of banks, but allowing it to go to the Government directly for its assistance.

Mr. UNTERMYER. You lose the security of the intermediate institutions and all that implies, so that it is not as safe——

Senator REED. I am coming to that.

Mr. UNTERMYER. Because of that fact.

Senator REED. And you think 2 per cent interest would make that up?

Mr. UNTERMYER. I have not said that 2 per cent interest would make that up. What I said was that a guaranty fund of 2 per cent would undoubtedly cover losses from bad accounts.

Senator REED. Now, let us take these figures. Let us have a Federal reserve bank.

Mr. UNTERMYER. You are going to let me go this afternoon, because I have got to go. I mean the committee is, because I have not yet really made the statement I was asked to make.

Senator REED. Really, Mr. Untermyer, I do not like to take your time.

Mr. UNTERMYER. I am very glad to be able to give you any information at my command.

Senator REED. And I appreciate your attendance, and I would not dwell upon this matter, but I think the influence of your statement here may be very great with this committee and with the country.

Mr. UNTERMYER. You understand me, Senator. I am glad to give the committee as much of my time as they desire, but if I can not get through this afternoon in time I would rather come again some other time and suit the convenience of the committee.

Senator REED. Very well. As I said, I think your statement may have influence, and weighty influence, with the committee and possibly with the country, and I am frank to say that some of your opinions are—well, I do not think very sound, or, rather, I think they are extreme upon certain things; and that is the reason I am asking these questions.

Mr. UNTERMYER. Of course, you know, I reciprocate that.

Senator REED. Undoubtedly; but I am not the witness or the adviser, and if you are mistaken, or if you have an opinion that is not absolutely sound, I would like to get at it.

Mr. UNTERMYER. I should like to see it the other way around, with you as witness and me as counsel. I have not the same opportunity as witness as you have as counsel.

Senator REED. Yes; I think you do; because I think you argue one side of this case better than I can argue the other.

Mr. UNTERMYER. It is very good of you to say that, but I do not feel that way. A witness is at a disadvantage always.

Senator REED. I think the poor committeeman is at the disadvantage in this case. Now, having sufficiently complimented each other, let us proceed.

Mr. UNTERMYER. I have not begun yet.

Senator REED. Coming back to this question, I want to take up the question of the potential note issue of the reserve banks under this plan. Ten per cent of the national-bank capital would create a fund of $105,691,979.

Mr. UNTERMYER. That is, on the theory of the national banks alone?

Senator REED. No; that is 10 per cent of the national bank——

Mr. UNTERMYER. I say that is on the theory of the national banks alone becoming members?

Senator REED. Yes; certainly. We can not figure the other very well now. The minimum deposits would be $356,231,717; the 33⅓ per cent minimum gold reserve, of course, comes out of that, but that makes a total of what I have just given you.

Mr. UNTERMYER. Out of the $356,000,000?

Senator REED. Yes. It makes a total of assets of $461,923,996, and that, under this bill, can sustain a note issue of $1,385,776,085.

Senator BRISTOW. What are those figures again?

Senator REED. $1,385,776,085.

Senator BRISTOW. Of liability?

Senator REED. Of note issue.

Mr. UNTERMYER. How is it you figure that?

Senator REED. Well, I had a gentleman who can figure take the figures I just gave you and then from them see how much money could be issued under this bill, keeping within the law.

Mr. UNTERMYER. I do not see how he figures it. I would like——

Senator NELSON. No man could figure that, Senator Reed, under this law.

Senator REED. You can, the moment you take as a basis—for instance, we can tell the amount of the capital that would be paid in, the 10 per cent, the amount that that would bring in the national banks, which is $105,691,979.

Mr. UNTERMYER. They could loan out all of that.

Senator REED. Now, the minimum deposits; that is, the reserves which the banks are required to put in, would aggregate $356,231,717. That gives you, then, a total $461,923,996. Now, you can take that, and setting aside each time your gold reserve of 33 per cent, you can figure how much money could be issued against it, and it aggregates $1,385,776,085.

Mr. UNTERMYER. I would like to see how that is figured.

Senator REED. I have not the detailed figures, but the gentleman who figured this——

Mr. UNTERMYER. On what principle is it figured?

Senator REED. The figures were made by an actuary, and it is figured upon the principle that now we have got in this bank $461,923,996.

Mr. UNTERMYER. That is $283,000,000 of loanable funds?

Senator NELSON. That is composed, Senator Reed, as I understand your figures, first, of the stock subscription of the member banks; next of the deposits that they are required——

Senator REED. That they are required to put in.

Mr. UNTERMYER. And deducting one-third——

Senator REED. Then this bank starts to the Federal Government to get money, and it borrows or gets from the Federal Government

$461,923,996 of Federal notes, two-thirds of which is put in circulation, setting aside one-third as the gold reserve.

Mr. UNTERMYER. It puts more than two-thirds in circulation, because it does not need to set aside anything against capital—$105,000,000; it puts $283,000,000 in circulation.

Senator NELSON. He is assuming that you issue notes both for the capital and deposits.

Mr. UNTERMYER. Oh, I see.

Senator REED. Yes; I am talking about this potentiality. Then, having loaned this money out, except the gold reserve, it gets new notes of member banks or obligations of member banks, and having those it goes to the Federal Government and gets more money.

Mr. UNTERMYER. How often?

Senator REED. And it repeats that until it has exhausted its ability to get money, by virtue of the 33⅓ per cent having exhausted the fund.

Mr. UNTERMYER. Your actuary proceeded upon a most violent assumption.

Senator REED. I am talking about the possibilities of this bill, and those are the possibilities of the bill.

Mr. UNTERMYER. They are not even the physical possibilities of the bill.

Senator REED. I do not know why.

Mr. UNTERMYER. You would have to have somebody at every branch bank waiting with commercial paper all day and all night and at the reserve banks straight along. You are assuming that you can keep borrowing day and night. The actuary could make as many figures as he pleased on that. This paper has an extreme maturity of 90 days?

Senator REED. Yes.

Mr. UNTERMYER. You have no right to assume it is going to be 90-day paper. It would probably average 45 or 60 days. He has assumed that from the first day that paper was put in as fast as you can get money you have got new notes that you can keep putting in and getting money every day until the paper matures.

Senator REED. Certainly; and while there would be some loss and some variation, for all practical purposes that would be true, because when this bank is running there is a stream of money going out over the counter and notes coming in, and there is no reason why it should not go across the hall to the Federal reserve agent every day with its notes.

Mr. UNTERMYER. And there is a stream of money coming in?

Senator REED. Certainly.

Mr. UNTERMYER. How can any actuary make figures on that basis?

Senator REED. It is perfectly simple.

Mr. UNTERMYER. He can not make figures on that basis.

Senator REED. I have had made the same sort of figures to apply to the other side. I will now take what I call the "Hitchcock plan" for the present—although I do not think he has indorsed this plan, except by suggestion——

Mr. UNTERMYER. Those are unknown factors.

Senator REED. It is unknown in one case, and they are identical in both cases. I am simply approaching the question of security and the amount that could be issued on that capital. You take the plan

of Senator Hitchcock, of a possibility of 75 per cent of money being issued equal to 75 per cent of the bank stock, the present bank capital is $1,056,919,742. The potential note issue at 75 per cent would be $792,000,000. The present note issue is $733,692,820, making a potential note issue against this bank capital of $1,555,692,820.

Mr. UNTERMYER. At what figure does the note issue begin—$792,000,000?

Senator REED. Yes.

Mr. UNTERMYER. If you begin in the one instance with $792,000,000 of note issue and in the other instance you only begin with $283,000,000 of note issue, I do not see why under Senator Hitchcock's plan you do not have many times more the amount of paper than you would under the regional reserve.

Senator REED. Because you are absolutely limited by the amount of bank capital in one case, whereas in the other case you are limited only by the amount of commercial paper, which is utterly unknown.

Mr. UNTERMYER. No; you are not in the other case. If I may suggest, you are limited with a beginning of $283,000,000; that is the loanable funds in the regional bank. Under Senator Hitchcock's plan you start with a loanable fund of $792,000,000. So that in the natural course of things, if you take the same figures for both instances, you will have three times as much paper outstanding on your plan.

Senator REED. But when you get it out you can not go on and multiply it in one case, whereas you can in the other.

Mr. UNTERMYER. I do not know why you can not if it keeps coming in and going out.

Senator REED. But you can not go above 75 per cent of that bank capital in one case, whereas in the other you can go up to the amount of commercial paper.

Mr. UNTERMYER. The $1,000,500,000 is doubled 75 per cent, according to that statement. Under Senator Hitchcock's plan you have got double your limit already.

Senator REED. What misleads you and what appears to be misleading in these papers is that there has been used the present bank circulation, which is based upon Government bonds and not upon the stock of the banks.

Mr. UNTERMYER. Has that been done in both these illustrations?

Senator REED. That is carried into this particular bank-circulation plan.

Mr. UNTERMYER. Has it been carried into both these illustrations?

Senator REED. No; it has not been carried in the other, because the other proposes to retire them. This would not propose to retire them.

Mr. UNTERMYER. If you have included the $746,000,000 in the Hitchcock illustration, I can understand the figures.

Senator REED. Certainly.

Mr. UNTERMYER. Otherwise it will remain stationary.

Senator REED. Let us see what security is back of this. If the Federal reserve banks—[After consultation with actuary.] I think I owe to the committee an apology and to the witness. While these figures bear on another matter, they do not bear on this point. They are different illustrations.

Mr. UNTERMYER. I thought so.

Senator REED. And I can follow those through, and I will now, and then come back to this particular point. These sheets were handed to me a moment ago.

Mr. UNTERMYER. Evidently there is something wrong about them.

Senator REED. I am speaking now——

Senator SHAFROTH. Why can you not cut them out of the record?

Senator REED. No; they are all right. I have simply now put these figures in and I do put them in for the purpose of showing the potential note issue under the two plans. Assuming that the minimum of deposits will be made in the reserve banks, if the deposits in the reserve banks are not at the minimum, if they mount to a higher place, then, of course, the note-issuing capacity is multiplied indefinitely. It is dependent upon the amount of deposits, whereas in the case of the national banks obtaining this money under what I will call the "Hitchcock suggestion" their total issuance, including an amount which is now issued upon the Government bonds, would be $1,525,692,820. And that answers the question of fluctuation, and that is what I had those papers prepared for, but I started to introduce them on the other idea, and it is somewhat confusing.

Mr. UNTERMYER. Have you the figures so that I could look at them?

Senator REED. I have not the details, but will give them to you.

Mr. UNTERMYER. I think there is something wrong about them.

Senator REED. I now take up the question of the margin of safety in the two plans. I want to assume the organization of the Federal reserve banks. As they are given to me, this is the result: The capital paid in at 10 per cent would be——

Mr. UNTERMYER. $105,000,000.

Senator NELSON. That is for the 12?

Mr. UNTERMYER. That is for all of them—$105,691,979.

Senator HITCHCOCK. Mr. Untermyer, do I understand you must leave on the 3 o'clock train?

Mr. UNTERMYER. Yes, sir.

Senator HITCHCOCK. Would you be able to come back next week or some later day?

Mr. UNTERMYER. If it is required, Senator Hitchcock, because I have not really outlined in any sort of sequence or logical order the recommendations that I desire.

Senator HITCHCOCK. Mr. Untermyer, about how long would it take you to make your own statement if uninterrupted?

Mr. UNTERMYER. I should think about three-quarters of an hour.

Senator HITCHCOCK. We expect at 3 o'clock to hear some Minnesota gentlemen. The time after you have to leave we shall give up to the Minnesota delegation.

Mr. UNTERMYER. I should like very much to get away at 2 o'clock, if I can.

Senator HITCHCOCK. Two?

Mr. UNTERMYER. Yes; I have another engagement over in one of the departments which I would like to keep.

Senator O'GORMAN. Senator Reed, might I ask a question? Would it interfere with your plan if Mr. Untermyer were allowed to proceed to the completion of his statement and then later take up his interrogation?

Senator REED. It will not when I get through with this question which I now have before me, but I do not want to leave it in this case.

Assuming that all the national banks came in, each regional bank would have approximately $10,000,000 of capital?

Mr. UNTERMYER. A little less than $9,000,000 on an average.

Senator REED. We will assume it is $5,000,000, which the bill requires.

Mr. UNTERMYER. It would be more.

Senator REED. I am just taking the arbitrary figure.

Mr. UNTERMYER. Yes.

Senator REED. The capital subject to liability would be $5,000,000 more; 5 per cent of the deposits would be $35,000,000. That makes a total of $40,000,000 that you actually have, with $5,000,000 that can be called upon, which makes a total of $45,000,000.

Mr. UNTERMYER. How do you make 5 per cent of the deposits $35,000,000? That includes the Government deposits, too, does it not?

Senator REED. No.

Mr. UNTERMYER. Because the reserves will be $356,000,000. That would only be $17,500,000.

Senator NELSON. That is for the whole system; but he spoke of the $5,000,000 for one reserve bank.

Senator REED. I think these figures are accurate on that point.

Senator NELSON. I do not see where you can assume one regional bank would have this $35,000,000.

Mr. UNTERMYER. No.

Senator NELSON. I do not see where you get those figures.

Senator REED. The figures are assumed in both instances upon the same basis for those in the other banks. I am trying to get the margin of safety. Let me state it again. Take a capital of $5,000,000 for a regional bank, and a capital liability of $5,000,000, and at 5 per cent of the deposit would make $35,000,000. That is a total of $40,000,000 actually in the bank, with $5,000,000 in reserve, a total altogether of $45,000,000.

Mr. UNTERMYER. You have not put in the Government deposits at all?

Senator REED. Not at all.

Senator NELSON. That would not be such a great thing if they were distributed equally among 12 banks.

Senator REED. But the Government deposits are not a margin of safety, as far as the Government is concerned; that is a margin of danger to the Government, if there is any danger in it.

Assuming a note issue of $100,000,000, there would be against that a total protection, so far as the bank was concerned, of $45,000,000 and the proceeds of these notes, which would be $145,000,000. There would be in that case a margin of safety of just the $45,000,000 plus the value of the promissory notes that were put up.

Senator NELSON. But where do you get your assumption of $100,000,000 of note issue?

Mr. UNTERMYER. It is an inadmissible assumption.

Senator NELSON. I do not see what that is based on.

Senator REED. Well, the bank can take its paper down—I am trying to get the margin of safety that will exist back of money that is

issued by a reserve bank. A reserve bank has its capital stock, which we have assumed to be $5,000,000.

Senator NELSON. Yes.

Senator REED. It has its capital liability, which we have assumed, of course, to be another $5,000,000. We assume its deposits to be $35,000,000.

Senator NELSON. How do you assume it will issue $100,000,000 in notes?

Senator REED. I am simply assuming that, because you have got to assume a figure. I am going to take the same figures and assume the same proportion on a national bank.

Mr. UNTERMYER. You can keep on reducing the margin of safety by increasing the assumption of notes.

Senator REED. You do not understand me, or I do not understand you.

Mr. UNTERMYER. Yes; I think I do.

Senator REED. And I think I might at least be allowed to ask a question, and then if it can not be understood or if it is incorrect that can be pointed out.

Mr. UNTERMYER. Let me apologize.

Senator REED. No; I do not mean that. I am speaking generally about it. I want to get at an accurate result. I asked a gentleman to assume a condition with reference to a reserve bank, and then apply the same assumption and the same proportions to a single Federal bank, and try to arrive at the question of which would give the greater margin of safety for a note issue. If you take a Federal bank with $5,000,000 of capital——

Mr. UNTERMYER. I understand now.

Senator REED. With $5,000,000 of capital that can be called, and assume that it has deposits of 5 per cent. You have $40,000,000 actually in and $5,000,000 of reserves. Assume, now, that it goes down and gets $100,000,000. It puts up for that $100,000,000 a hundred million dollars of notes which it has loaned out, but when it loaned it out it reduced the cash on hand by that amount, so that it has actually back of the $100,000,000 that it got $145,000,000 of assets, or a margin of safety of 45 per cent.

Now, let us apply those figures to a single national bank. It has a capital of $100,000, a stockholder's liability of $100,000, a redemption fund in the Treasury of 5 per cent, or $3,750; it has the notes against which the paper was issued of $75,000; its assets and stockholder's extra liability all aggregate $278,750. Its note issue is $75,000; its margin of safety is $267,000, as this gentleman figures it, instead of $145,000 as the other plan works out.

I am sure that these figures are correct. They were prepared for me by a gentleman who does a good deal of figuring, but they look on the surface to me as though they were actually correct.

Mr. UNTERMYER. I do not think they mean anything.

Senator REED. I would like to have them verified.

Mr. UNTERMYER. They do not mean anything, because they are composed of a variety of assumptions. Of course you can proportion anything if you assume premises, and you must get the conclusion——

Senator BRISTOW. Just a minute.

Senator REED. If you make the same assumption?

Mr. UNTERMYER. It is not the same assumption.

Senator REED. With the same hypothesis in each instance, and then apply the two different plans, and from that you ought to get——

Mr. UNTERMYER. But you have not made the same assumption. You have assumed in the case of the regional bank that it is going to loan out and issue some currency for twenty times its capital, and you have assumed in the other case that it is only going to get currency for three-fourths of its capital.

Senator REED. Exactly, because I have assumed a law that will only let it get 75 per cent of its capital, and in the other case I have assumed that the system is put into effect that we propose to put into effect under this bill.

Mr. UNTERMYER. It stands to reason that if one corporation only borrows three-fourths of its capital and the other borrows twenty times its capital there is going to be a bigger margin of safety to the one that borrows three-fourths than twenty times; but the facts do not warrant that.

Senator REED. That is just the difference between these two systems. One of them proposes to let a reserve borrow, regardless of its capital, and the other proposes that it shall borrow only three-fourths of its capital, setting aside a gold reserve back of every dollar that it does borrow.

Mr. UNTERMYER. But in the case of the regional reserve you have omitted a number of elements of safety when you say the margin of safety is 145 to 100. You have assumed that there are $1,300,000 of commercial paper in the country at any time for which this currency can be issued, and you have assumed a variety of things, Senator Reed, for which there are no statistics and no warrant for assuming.

Senator REED. Do you think it is safe to draw a bill that is to go into effect as a permanent system in this country based upon an absolutely unknown quantity?

Mr. UNTERMYER. I do not think it is an unknown quantity.

Senator REED. You have just said that you did not know how much commercial paper there was.

Mr. UNTERMYER. What I meant to say was that I do not think it is an unknown quantity in this sense, that there is the safeguard of the regional bank and the reserve board as to the amount of paper. Therefore they have it always within their power.

Senator NELSON. But if you will allow me to interrupt, is not the ultimate question in that case what would the country absorb?

Mr. UNTERMYER. That is the point.

Senator NELSON. What would the trade and commerce and traffic of the country absorb?

Mr. UNTERMYER. That is, legitimately absorb.

Senator NELSON. It is not enough to issue a paper; there must be somebody that wants to use it.

Mr. UNTERMYER. That is what I have been trying to develop.

Senator REED. That would be true in both instances, Senator.

Mr. UNTERMYER. But one is rigid and the other is not.

Senator REED. One is rigid to this extent, that there is a point beyond which inflation can not go, and that point is fixed by the bank capital.

Mr. UNTERMYER. No; but you have a system now under which you can get currency to the full amount of the capital of a bank. That

is inelastic. Now, you propose to substitute for it a system by which you can——

Senator BRISTOW. It does not substitute it at all.

Senator REED. We propose to place it in addition to the present law which permits you to have issues upon bonds.

Mr. UNTERMYER. Then, the answer to that is that instead of an inelastic system that allows 100 per cent currency issue against Government bonds, you propose to superadd 75 per cent in equally rigid security. It is not going to do very much good. It will give you more currency.

Senator REED. It is only rigid to the extent that you can not go beyond a certain point in inflation.

Mr. UNTERMYER. But the amount of bank capital is no criterion of the needs of the country. The fact that the banks have just so much capital stock at this time does not measure—in any degree on any theory—the contracting and expanding requirements of the country. The contracting and expanding requirements of the country are measured by the amount of legitimate commercial paper that is available at reasonable rates of discount; and that is the sole scientific test. If you try any other tests you have to have an unreasonable test.

Senator REED. I have heard that asserted a great many times as a fact, that the sole test of the amount of money we need in this country is to be determined by the volume of commercial paper.

Mr. UNTERMYER. Provided it is rigidly tested.

Senator REED. I have not heard anybody go beyond the assertion. I have not heard anybody demonstrate it, and I am not prepared to accept it as necessarily a verity.

Mr. UNTERMYER. But, Senator Reed, those who assert it simply point to the years of experience of other countries where it has worked and where they do not have the violent contractions and expansions in the currency market, and a famine in currency, and a glut of currency.

Senator REED. Let me see. I will take issue with you on that. I suppose you refer to England?

Mr. UNTERMYER. I refer to all the continental countries.

Senator REED. England's panics have been as frequent and as disastrous as they have been in this country, have they not?

Mr. UNTERMYER. Not currency panics.

Senator REED. Well, but panics—banks closing, bank smashes, widespread commercial paralysis.

Mr. UNTERMYER. They have had business panics that have been reflected in the banks, but they have never had, so far as my recollection goes, any instance of them in times of prosperity and normal business conditions. You have not had currency panics when people could not get money against credits, so far as I know.

Senator REED. They never actually did close their banks, I believe, in Great Britain as we did in this country just once in our history, but they have had a panic or crash that has compelled the raising of discounts to very high points, have they not?

Mr. UNTERMYER. I do not remember of their being raised very high. How high do you call "very high?"

Senator REED. They have not gone high, as compared with our board of trade speculations down here in New York, but they have

gone up to practically prohibitive points, until gold flowed in from other countries.

Mr. UNTERMYER. What do you call prohibitive points? They do not frequently need to go to 5 per cent to attract gold.

Senator REED. But they have gone to 10 per cent.

Mr. UNTERMYER. I did not know that.

Senator REED. I have been so informed. I am not an expert on European banking.

Mr. UNTERMYER. I do not know that I have ever seen the statistics as to that.

Senator REED. The prime difference between you and me seems to be this, that you insist on a flexible currency—and I agree with you there. I insist that there shall be some absolute limit placed upon the amount of inflation, and I say that, as bank stock is practically stable, that we would furnish some limit, whereas you say that that is inflexible because there is an absolute limit; and you prefer commercial paper, stating that commercial paper measures the business activity of the country. I do not think it does.

Mr. UNTERMYER. No.

Senator REED. I do not think that it measures the activity of the business of the country any more than the building of houses and the putting up of factories and the construction of railroads measures the business acativity of a country; and I do not think that this bill ought to be drawn for the banks alone or for the commercial population alone, but it ought to be drawn with reference to the entire business of the country and every man, woman, and child in it.

Mr. UNTERMYER. I think we would all agree as to that, and I believe everybody who has participated in the discussion of this bill agrees that it should be drawn for everybody in the country—for the general prosperity. So far as concerns inflation, I do not think that you have here a system proposed that leads to inflation. I recognize a great distinction between legitimate expansion and inflation. I think inflation ought to be defined as illegitimate expansion.

Senator SHAFROTH. Do you not think we had better give Mr. Untermyer an opportunity to make his statement and then inquire as to any improvements which he may wish to suggest?

Senator REED. I am through.

Senator NELSON. I would like to ask two or three questions, and they will be very short.

The system to be inaugurated by this bill is really a system of asset currency, as we understand the term, accompanied with a gold reserve of 33 per cent?

Mr. UNTERMYER. That is a very accurate description of the case.

Senator NELSON. Why can we not build upon the present system of national banks that we have, allowing them to substitute in place of a bond-secured currency an asset currency based upon their commercial resources, with a 33 per cent gold reserve? In other words, why could we not apply the same principle of asset currency and 33 per cent gold reserve to the individual national banks, and so operate and build on the system that we have?

Mr. UNTERMYER. That, it seems to me, is what we are doing, except that we are interpolating between the banks and the Government these regional reserve banks, which are a strong element of added

security and added supervision and management, which is necessary with an unlimited asset currency.

Senator NELSON. You have the reputation of being a good lawyer, and you know how the common law grew up. Could we not apply the principles of the common law here to our present national-bank system, and build upon that, giving the banks the privilege of substituting currency upon their assets instead of upon bond-secured currency, and requiring them to put a gold reserve of 33 or 40 per cent behind it? Why would not that be as safe a currency as this currency?

Mr. UNTERMYER. Senator Nelson, I take it from my reading of the bill that that is precisely what we are doing under the bill, except that we are adding two elements of further security by interpolating the regional bank between the member bank and the Government, and are providing for a mobilization of our reserves, which would not be otherwise possible. We are also taking these reserves out of Wall Street, where they have been used in speculation.

Senator NELSON. But you rob the individual banks of a part of their capital to get this intermediate institution.

Mr. UNTERMYER. I do not agree to that. On the contrary, I think that instead of robbing the individual banks, as I explained yesterday, we are benefiting the individual banks, because for the 10 per cent capital they have to put up they are almost guaranteed 5 per cent return, in addition to which they get back the subscribed capital in the form of rediscount. They are not losing the use of that at all. Presumably each bank is getting its pro rata and equitable use of that fund. No part of that capital has got to be set aside for a gold reserve. That capital is loanable, as I understand it.

Senator NELSON. Where do they get their gold reserve? Where would the reserve banks get their gold reserves; from what source?

Mr. UNTERMYER. As I understand it, their gold reserve that they are required to put aside is against their demand liability.

Senator NELSON. You do not answer my question. From what source are they to get 33 per cent gold reserve?

Mr. UNTERMYER. There is no doubt that they will get their gold reserve by using their capital stock and some other——

Senator NELSON. Have they not got to take their capital stock to get that gold with?

Mr. UNTERMYER. When they take their capital stock to get their gold with, then they replace their money they have thus taken out of their deposits, because when they have once gotten the gold reserve put aside, they do not need it to put aside again.

Senator NELSON. But their deposits are not their money?

Mr. UNTERMYER. No; but they have to put half their gold reserve against these deposits. There is no gold reserve required against their capital stock.

Senator NELSON. No; it is against the currency.

Mr. UNTERMYER. Only against the currency. What I mean is that they must put aside the gold reserve against the money they borrowed from the reserve bank. If the reserve bank has $100,000 of capital or $10,000,000 of capital, until it borrows currency, it need not put aside a gold reserve, and then only against the currency issued to it.

Senator NELSON. We will take the case of 100 millions of commercial paper as put up to a regional bank, and they issue 100 millions of

these reserve notes, these Treasury notes upon that, and the bank is required to keep 33 per cent of gold reserve. From what source does it get it? It can not get it from those notes that are put up as security. From what source will it get its 33 per cent gold reserve?

Mr. UNTERMYER. From the deposits, the proceeds of the reserves that are put up.

Senator NELSON. From the commercial paper?

Mr. UNTERMYER. Yes.

Senator NELSON. The commercial paper will yield the gold? That is your theory?

Mr. UNTERMYER. Yes; that and the capital.

Senator NELSON. And the 5 per cent——

Mr. UNTERMYER. No, no; the 10 per cent. They have to utilize all their reserves.

Senator BRISTOW. How does the bank get its capital back?

Mr. UNTERMYER. Suppose they have $10,000,000 of capital and $100,000,000 of deposits. They lend a part of it. In other words, the banks come to them with $100,000,000 of paper and ask them for currency. They have $210,000,000 of assets, have they not?

Senator BRISTOW. Yes.

Mr. UNTERMYER. And against that 210 millions of assets they issue 100 millions of currency, against which they have to put aside 33 millions of gold. That 33 millions they get out of their entire assets.

Senator BRISTOW. That came from what?

Mr. UNTERMYER. From resources, taken all together.

Senator BRISTOW. That must come from their deposits and their capital, must it not?

Mr. UNTERMYER. And the notes.

Senator BRISTOW. But the bank gets the notes.

Mr. UNTERMYER. I mean the securities put up.

Senator BRISTOW. The Government does not let them take securities and purchase gold with them, does it?

Mr. UNTERMYER. No; the Government holds these securities, but it takes a part of these deposits it has on hand and part of the proceeds from its stock and buys gold.

Senator BRISTOW. It takes part of the 100 millions of deposits?

Mr. UNTERMYER. Yes, sir. There is no reason why the capital which these banks put up, the member banks, at 10 per cent, could not be loaned back.

Senator BRISTOW. How can it be loaned back when it is all hypothecated with the Government?

Mr. UNTERMYER. The capital is not hypothecated with the Government.

Senator BRISTOW. But the capital has been secured when it is put up by the Government.

Mr. UNTERMYER. The deposits may be used.

Senator BRISTOW. The deposits came from the banks?

Mr. UNTERMYER. Yes.

Senator BRISTOW. So you are taking from the country banks their resources and a part of the resources you can not loan back?

Mr. UNTERMYER. I do not agree. I think a part of these resources you can loan back.

Senator BRISTOW. A part, but not all.

Mr. UNTERMYER. Suppose a bank puts up $10,000 to acquire stock. It could get $6,600 back by way of loan, according to your theory, could it not?

Senator BRISTOW. Yes.

Mr. UNTERMYER. But, according to my theory——

Senator BRISTOW. They could borrow it back?

Mr. UNTERMYER. Yes; it can borrow it all back; and, according to my theory, it can borrow it all back because the regional bank can get its reserves out of its deposits and need not get it out of its capital.

Senator BRISTOW. But its deposits are the deposits of the banks. They have been taken out of their own community and sent down to the regional banks.

Mr. UNTERMYER. But the country bank now sends its deposits away and gets none of them back. They are used in the city. Under this plan they get two-thirds of them back—they can borrow two-thirds back.

Senator BRISTOW. The country bank sends that part of its deposits to the city which it needs in the transaction of its business, and the banks in the cities——

Mr. UNTERMYER. I beg your pardon; it does not send what it needs in the transaction of its business. It sends what the law requires it to send.

Senator NELSON. Banks keep accounts all over for exchange business.

Mr. UNTERMYER. Of course they do; but that must be over and above their required reserve, because their balance must be equal to the lawful reserve.

Senator BRISTOW. Bankers have testified here that the lawful reserve was not more than was needed. Many of the banks got as much as was needed in the transaction of their business.

Mr. UNTERMYER. I do not know what other people have testified to, but it does not seem reasonable.

Senator BRISTOW. That is what Mr. Frame, who was from Waukesha, Wis., stated the other day.

Mr. UNTERMYER. They have to have accounts over and above their required reserve to do their exchange business. Under this bill they will have to have accounts in the cities, anyway, but they will be accounts over and above the reserve. I am not talking about the moneys that are needed in the cities for exchange purposes. I am talking about the amount that the law requires them to have for reserve purposes that they do not get back now.

Senator NELSON. Here is the question: This reserve money that is to be put in the reserve banks, this 5 per cent, we will call it—is that to be treated in the reserve banks as reserves are now treated in the national banks? That is, must they be kept there perpetually as an unavailable fund?

Mr. UNTERMYER. I think the bill defines that.

Senator NELSON. What is your understanding? Is that to be a reserve in the reserve banks in the sense that a reserve in a national bank is a reserve now?

Mr. UNTERMYER. Is not that against gold? That is, the 5 per cent deposit against their currency issue. Is that what you refer to?

Senator NELSON. No; I mean the reserve requirements. At present a country bank is required to keep 15 per cent reserves. Nine per cent

it can have in central reserve or reserve cities; 6 per cent in its vaults. Banks in reserve cities are required to keep 25 per cent; half they must keep in their own vaults. Under this system, when it has finally culminated, after the end of 36 months, the country banks are required to keep, I believe, 12 per cent—5 per cent in their own vaults and the balance in the reserve bank.

Mr. UNTERMYER. No; 5 per cent in the reserve bank.

Senator NELSON. The question is not whether it is 5 or 12 or 6. It does not make any difference. Is that 5 per cent of the reserve banks to be there somewhat as a fund, as it is now, an unavailable fund, for any purpose?

Mr. UNTERMYER. No; on the contrary, it is available in the hands of the regional banks as a basis on which to loan money; that is, two-thirds of it.

Senator NELSON. Can they pay that money out? Must they keep it constantly in their vaults?

Mr. UNTERMYER. No; on the contrary, that is one of the virtues of this bill, that instead of that money being unavailable it is available except as to the gold reserves that must be kept against it.

Senator NELSON. They are not required to keep any other reserve than a gold reserve?

Mr. UNTERMYER. None other. The rest of their assets can all be in the form of member banks' notes, and that is one of the great advantages to the country banks, that whereas at present their reserves of 9 per cent in the city are unavailable to them, under this bill that reserve is reduced to 5 per cent, and two-thirds of that is available to them.

Senator BRISTOW. I received a letter this morning from one of the leading State bankers in our State, and he gave it to me as his judgment that none of the State bankers of Kansas would come into this; that they could not afford to; and he also said that a majority of them could not go in under the law because their capital is not sufficient.

Mr. UNTERMYER. You refer to $25,000 limitation?

Senator BRISTOW. Yes. He thinks that a great many national banks will take out charters under the State law, because it would be more advantageous to them in doing their banking business than under this Federal statute.

Mr. UNTERMYER. I think it will be, as the law now stands, and I have suggested that it be amended in that respect. As the bill now reads, as I suggested yesterday, a State bank may become a part of the regional reserve bank by subjecting itself to an examination and by having the necessary reserves, complying with the conditions of this bill, and it may do a very much wider variety of business and have a broader charter than a national bank; and this bill, to my mind, leaves no inducement open to a national bank to remain a national bank if it can exchange its national charter for a State charter and get wider charter powers than they have now.

Senator NELSON. They can all do that, except in the matter of issuing currency.

Mr. UNTERMYER. No; but the currency can be issued to a State bank under this bill. That is the difficulty which I would like to develop; that is one of the things I wanted to say. My suggestion has been that any bank that wanted to enter this system, any State bank, should exercise only the powers that are possessed

by and allowed to a national bank. If you do not do it as you have now withdrawn bank notes from circulation privilege and as soon as you have now withdrawn the privilege of being a depositary for Government funds, I do not see that you have left the national banks any advantages that would not be possessed by a member State bank whilst the member State bank has powers and can do classes of business that the national bank can not. Therefore, it seems to me you must choose now between one of two alternatives. You must either have a system of currency available to all State institutions and in that way have them all together out of the national system, or you have to make the State institutions conform in their charter powers to the powers possessed by a national bank; and for that purpose you ought, it seems to me, to enlarge somewhat the powers of a national bank. As between the two systems of a State bank or the system of State banks only, under this bill, with limited regulations by the Federal authorities, and the system of national banks and State banks on a par, you ought to choose the latter. If you limit the powers of a State bank to those possessed by a national bank, and enlarge the powers of a national bank, you put the two classes of banks on a par so far as concerns their membership in the association. It has been said that the State banks would not come in. I do not believe it is possible for the State banks or any other banks to stay out of this system.

The advantages of the system are so manifest and so numerous that they could not stand the competition; besides which the stability of a bank in this system, its ability to get money in times of emergency, to utilize its reserves, and in that way to use its deposits over and over again, is so manifestly superior to anything that the bank outside of the system would have that it would only be a little while before the State banks would be bound to come in. But you can not leave it in its present condition. There would be no incentive to a national bank to stay in the system, and every incentive to convert it into a State bank, because it would get all the benefits of membership in the system and none of the restrictions in respect to its charter powers or methods of doing business.

Senator O'GORMAN. What would be the objection to enlarging the functions of a national bank to the extent now possessed by the State banks generally?

Mr. UNTERMYER. I am very much in favor of enlarging those powers, except in certain directions. For instance, in some of the States the trust companies and the banks are allowed to deal in stocks—to buy and sell stocks—and it is an unsafe thing. They ought not to be permitted to do it, and no State bank should be permitted to be a member in this system and get the benefits of currency and the protection of this system unless its charter powers are limited in that way. It would not be necessary, as was suggested yesterday, to alter its charter, but only to provide that no State bank should exercise powers not possessed by national banks and then enlarge the powers of national banks.

Senator POMERENE. In what particulars?

Mr. UNTERMYER. I would allow the national bank to be a trustee of a deed of trust or mortgage. I should allow it to be an executor. I think those are the principal particulars in which I would enlarge the powers; I would probably allow it definitely to have a certain

proportion of its capital in bonds of a certain character. Some of them buy bonds now, but I do not think they have the power to do it. At one time they bought and sold and dealt in stocks until they were stopped by the comptroller. He has not yet stopped them from investing in bonds, but he should have done so long ago. In the larger cities they are promoters, underwriters, syndicate managers, and act as issuing houses and bond sellers on a large scale. It is all wrong.

Senator NELSON. Evidently you are not familiar with banking in the rural communities in the West. The great thing in favor of the State banks is that they can loan on approved bonds, on real estate security; that above everything else. They do not care about loaning on bonds such as you spoke of.

Mr. UNTERMYER. I did not mean loaning on them, but owning them as permanent investments. There is no reason why they should not lend on bonds or stocks.

Senator NELSON. They do not care about owning the bonds, because they can do very much better on real estate loans, first-class farm mortgages. That is the great consideration for State banks out there; and you can not get one of them to go into this system if you deprive them of that privilege.

Mr. UNTERMYER. That ought not to be an insuperable objection, although a farm mortgage is not a very liquid security. It seems to me something can be done in that direction, although I had understood that we were going to have a system of farm credits, agricultural credits similar to the continental systems.

Senator NELSON. That would be an agricultural bank. That is another scheme.

Senator O'GORMAN. You think the power possessed by State banks to buy and sell stock is an unwise power. Has it proved to be unwise in the experience of State banks?

Mr. UNTERMYER. I think it has proved to be unwise in this sense, that in the great cities, some of them, they have become pretty active speculators in the market.

Senator O'GORMAN. State banks?

Mr. UNTERMYER. State institutions; I would not like to say State banks. I would not care to be any more specific.

Senator NELSON. Senator O'Gorman, can the State banks in your State loan on farm mortgages?

Senator O'GORMAN. Savings banks can loan on mortgages.

Senator NELSON. But not the other State banks?

Senator O'GORMAN. No.

Senator SHAFROTH. Have you examined the bill which I introduced with relation to taking in what national bank currency is now outstanding?

Mr. UNTERMYER. I have, and I know the bill, and there is a like bill by Senator Owen. I have that here, and in its main features it is a very wise bill. It seems to me we ought to have something of the kind. As I understand the bill, it proposes to deal with two subjects: First, the gold that is now on storage with the Treasury against the gold certificates for which the Government acts simply as a warehouseman for the moment, and which amounts to in the neighborhood of $1,100,000,000; secondly, it proposes to deal with the retirement of the bank-note currency, which amounts now to $746,000,000.

Senator SHAFROTH. And also for the retirement of greenbacks.

Mr. UNTERMYER. And putting that fund of 150 millions into the general fund.

Senator SHAFROTH. And providing for a 50 per cent gold reserve to maintain that currency.

Senator NELSON. It provides for the issue of a new Government paper currency.

Mr. UNTERMYER. Yes, sir. It seems to me that there is no more convenient or available way in which we can get gold than by canceling these gold certificates as they come in from customs and in other ways into the Treasury and issuing for them a Treasury note with a 50 per cent gold reserve back of them. If you get in all of the gold certificates under that plan you will have $500,000,000 of free gold, and unless you utilize it for the bank note currency—as I understand you propose to sell those bonds—do you not?

Senator SHAFROTH. No; the theory is to take them all and use this gold for all of them.

Senator NELSON. Take up the national bank notes and issue this new national currency?

Senator SHAFROTH. Based on the 50 per cent gold reserve.

Mr. UNTERMYER. The plan that has been a good deal discussed of late, and I think it is a very wise one, would release a great deal of gold. My suggestion would be that instead of utilizing the surplus gold that would come from the redemption of the gold certificates leaving only 50 per cent against those certificates.

Senator SHAFROTH. As it is now, there is 1,100 millions of gold in the gold-certificate fund.

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And there are 700 millions, say, in round numbers, of bank notes. There are 346 millions of greenbacks on which there is a reserve.

Senator NELSON. There is about 2 millions of other notes issued under the gold purchasing act.

Senator SHAFROTH. They are so insignificant that we do not care to take that into consideration.

You are for a gold reserve, then, of about 1,300 millions of dollars, and upon that the most that could be issued would be to replace the certificates, which would be 1,100 millions, to replace the greenbacks, which would be 346 millions, and to replace the 700 millions of bank notes, which, added together, would make about 2 billion, 146 million.

Mr. UNTERMYER. And 1,300 millions of gold.

Senator SHAFROTH. And 1,300 millions of gold, or about 60 per cent in gold, which would make a perfectly safe currency?

Mr. UNTERMYER. It would make an ideal currency.

Senator SHAFROTH. And would not the legal-tender quality being added to the note cause it to increase in value and give it, as a matter of fact, a tendency to keep it on a par with gold?

Mr. UNTERMYER. It ought to have and would be entitled to a legal-tender quality, and the gold reserve back of it would keep it on a par with gold always. That is a very large gold reserve.

Senator SHAFROTH. And the legal-tender quality would strengthen the currency, would it not?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And would have a tendency to overcome the objection which we now have to national-bank currency, because the national-bank currency is not permitted to be used as reserve?

Mr. UNTERMYER. Yes; it should be available as a reserve.

Senator SHAFROTH. It would be if it was full legal-tender money.

Senator NELSON. But, Mr. Untermyer, how could the Government put that money out into circulation except for the payment of its bills, its expenses, salaries, etc.?

Senator SHAFROTH. It could not; it would come gradually.

Senator NELSON. How would they get it through the Government? Would not the Government have to go into the banking and discount business?

Mr. UNTERMYER. As I understand this matter of gold certificates, they are being paid in every day for customs duties. When they come in, there is certainly no difficulty in issuing Treasury notes in their place.

Senator NELSON. What good would it do to issue the Treasury notes and to keep them in the archives of the Government? It would have to pay out those Treasury notes to somebody.

Mr. UNTERMYER. They should be a perfectly good legal tender.

Senator SHAFROTH. They would take the place of the gold certificates that come in.

Senator NELSON. That come in here, and they issue paper money for it. Who takes that out?

Mr. UNTERMYER. Who takes out the gold certificates as they come in now?

Senator NELSON. They take out the gold certificates, but that is measured by the present volume of the currency. It has nothing to do with the business of the country.

Mr. UNTERMYER. You would pay them out in the ordinary course of disbursement. You would deposit those Treasury notes in your bank accounts instead of your present gold certificates and check against them. This is a perfectly simple process.

Senator NELSON. It would make a better system, then, than this regional reserve system?

Mr. UNTERMYER. No; I think it would be supplementary to the regional reserve system. This does not create any additional currency; this only substitutes one kind for another.

Senator NELSON. It obviates the danger Senator Reed was fearing.

Mr. UNTERMYER. This would perfect that system.

Senator SHAFROTH. You say the gold certificates would still be in existence if anybody wanted them? And it does not force the national banks to surrender their currency unless they find that it is to their advantage to do it, and the advantage which they have by reason of cashing it would be to cash their 2 per cent bonds at par, which they now fear might go to a discount. It seems to me, when it is voluntary on their part, it would be a gradual substitution.

Senator NELSON. Why would it not be an immediate substitution for the regional reserve bank?

Mr. UNTERMYER. It does not create an elastic currency.

Senator NELSON. That is what I was trying to get at and you seemed to evade it. I said how was the Government to pay out this money?

Mr. UNTERMYER. It pays it out in its general disbursements; that is all. It does not give us any more currency.

Senator SHAFROTH. No; it does not inflate the currency a particle.

Senator HITCHCOCK. We will take a recess until 2.30 o'clock. Mr. Untermyer, as you must leave, we would like to know if you can come back on Monday?

Mr. UNTERMYER. Yes; I can return on Monday.

Senator HITCHCOCK. Would 11 o'clock on Monday be satisfactory to you?

Mr. UNTERMYER. Yes, sir.

(Whereupon, at 1 o'clock p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Mr. Wells, will you please state your name for the record, and your business and your place of residence?

Mr. WELLS. My name, Edward B. Wells, of Minneapolis. I am in the milling business, the elevator business, and connected with an investment securities business.

Senator HITCHCOCK. Have you a statement that you would like to make to to the committee, and is it in such form that you would like to read it?

Mr. WELLS. Yes; without objection, I should like to do that.

Senator HITCHCOCK. Well, you may proceed.

STATEMENT OF EDWARD B. WELLS, OF MINNEAPOLIS, MINN.

Mr. WELLS. This delegation, gentlemen, is here representing officially the Minneapolis Civic and Commerce Association, comprising a membership of something like 2,000 business men of Minneapolis. As you will readily perceive, it embraces all classes of business men; large and small, in every branch of our industries.

Also, the Minneapolis Chamber of Commerce, with a membership of 550, devoted chiefly to the grain and allied industries, milling, etc.; and also the Duluth Commercial Club, with a membership of 1,000, also representing the business interests of that city.

The principal lines of business in the Northwest are represented through these organizations. Would you care to have here the names of the gentlemen composing the delegation and their occupation for your record, Mr. Chairman?

Senator HITCHCOCK. I think each one of those gentlemen may state it as he comes before the committee.

Mr. WELLS. Well, as individuals, I may say——

Senator HITCHCOCK (interposing). If you prefer, however, you may file that with the stenographer.

Mr. WELLS. I can do so, if you wish.

(The list referred to is as follows:)

Delegation representing the Minneapolis Civic and Commerce Association, Minneapolis Chamber of Commerce, Duluth Commercial Club, and principal lines of commercial business in the Northwest.

Edward P. Wells, president Russell-Miller Milling Co., Minneapolis; president Electric Steel Elevator Co., Minneapolis; president Wells & Dickey Co. (investment securities).

Charles M. Harrington, elevator operator and grain merchant, Minneapolis.
F. E. Kenaston, manufacturer of thrashing machinery, farm tractors, and other agricultural machinery, and country banker, Minneapolis.
A. H. Comstock, wholesale hardware (Marshall-Wells Hardware Co.), Duluth.
Hovey C. Clark, lumber manufacturer, Minneapolis.
Fendall G. Winston, wholesale grocer (Winston, Harper, Fisher Co.), contracting and engineering (Winston Bros. Co.; Winston & Deere), and banking, Minneapolis.

As individuals we represent milling, grain trade, lumber manufacturing and jobbing.

We assume no knowledge of the science of banking. We represent a much larger and more important class—the borrowers.

We are come not to instruct your committee nor to support the contentions of the bankers.

It has been claimed that the effect of the bill under consideration will be to restrict the credits of the country. If this is true we should be unfaithful to the business interests of the great and growing Northwest if we do not enter our protest. If the claim is not justified we should be unfair to the framers of the bill if we do not frankly report our conclusions to those who sent us.

The business interests of the Northwest include the small country banker, the merchant, the farmers. For 20 years of my business career I was myself a small country banker, the very small country miller, and as well the farmer. My associates were these men. My best friends were and are to-day found there. But if anything takes place that prejudices the credit and embarrasses the business of the banks, the manufacturers, and the merchants of our northwestern cities it is at once reflected in the diminished prosperity of the country banker, merchant, and farmer. One quite naturally finds his first illustrations in his own business experience. My own company is engaged in the manufacture of flour. We operate 11 mills, and 10 of them scattered through the wheatfields of North Dakota and Montana. We also have elevators at some 80 or 90 other points in these States, primarily to purchase wheat for our mills. Because we want the first choice of the wheat of these States for our own use we can afford to pay, and do pay to the farmer, from 2 to 3 cents per bushel more than the elevators can afford to pay and assume the risk of shrinkage, dockage, short weight, and market conditions in shipping. During the year ending August 31, 1913, our mills and country elevators purchased over 20,000,000 bushels of wheat, on which it is safe to say that we paid an average of more than 2 cents a bushel above current market rates, or to the farmers of those States, dealing with us alone, $400,000. To enable us to purchase this wheat at the time when the farmers wanted to sell necessitated with us that we borrow between $2,000,000 and $3,000,000. If for any reason it had been impossible for us to do this the wheat would have been sold in the open market at current market prices. A similar restriction of credit experienced by the thousands of line elevators and by the independent and farmers' elevators in the Northwestern States would unquestionably have resulted in still lower current market prices and an an additional loss of many hundreds of thousands of dollars to the farmers of those States, with a corresponding shrinkage in their purchasing power, which would have been felt not only

by them but by the laborers, the small tradesmen, and the country bankers.

The similar effects that would have been felt I shall leave to my associates in this delegation to tell you of, as it may affect the interests that they more directly represent. If convinced, as I shall be glad to be convinced, that I am mistaken in anticipating restricted credit as a result of this measure, I can offer no criticism of this feature of the proposed legislation. Perhaps as a business man I may be pardoned for saying that I should look with disfavor on a proposition coming from any source to take from me any part of my invested capital to be put into an enterprise in the management of which I was to be permitted no voice and which might under some conditions become the football and plaything of politicians without experience in the business.

I would like to call attention to another provision of this bill, with the purpose of which I am in hearty sympathy, to wit, the prohibition of the use of paper as a basis for credit to be employed for carrying or trading in stocks, bonds, or other investment securities. I am connected with a concern whose business is that of purchasing, carrying, and trading in high-class municipal and corporation bonds and farm mortgages—never in a speculative way, never upon margins, and yet of necessity to meet the requirements of its customers, carrying hundreds of thousands of dollars' worth of strictly nonspeculative, sound investment securities, and often requiring large bank accommodations to enable us to carry the securities. Our concern represents hundreds of other and like concerns engaged in similar business. Is there not some way by which such legitimate undertakings may be recognized without letting in the promotion schemes, the stock jobbing, and the other forms of speculation against which this bill evidently attempts to provide?

There are one or two other points in the bill, and one in particular that I want to speak of very briefly, and that is the feature of the bill that provides for an advisory board and withholds compensation from it. It seems to me that that provision, if made effective, would practically prevent the participation in any degree whatever of that advisory board in the councils of the Federal reserve board. I believe that the business men generally of the country would heartily approve of a provision that should make—at least some part of, or give to some part of that advisory board, its chairman, or its executive committee—compensation upon the same scale as given to the members of the Federal reserve board, and with the condition that that man, or those men, should reside in the city of Washington, should be permitted to sit with the Federal reserve board, and give to it the benefit of their practical knowledge of the subject that may be by them under consideration at all times.

I presume that you have been flooded here with letters from country bankers. I have one, out of a good many that I have received, that is very temperate in tone and so well expressed that I may perhaps be permitted to read it. It is from the James River National Bank, of Jamestown, N. Dak., in response to a simple question from me:

How do you feel with regard to this new currency bill and how will it affect you?

In reply I have only three or fours days ago received this letter, which I will read to you. [Reads:]

THE JAMES RIVER NATIONAL BANK,
Jamestown, N. Dak., September 16, 1913.

Hon. E. P. WELLS, *Minneapolis, Minn.*

DEAR SIR: Replying to your letter with regard to the currency legislation now before Congress known as the Glass bill, I wish to say that we do not regard this bill favorably in its present form. The country banker does not look at all favorably upon the provision in this bill requiring him to furnish capital for the Federal reserve banks, in the management of which the bankers have no voice. Loss of interest on reserves deposited with the Federal reserve banks, loss of exchange, and only a possible 5 per cent return on the capital invested are, to say the least, not attractive.

It certainly seems to us that the banker who is required to furnish the capital and most of the business of these Federal reserve banks should at least be represented in managing them, and we do not look with favor upon the prospect of political management of the banking affairs of this country.

An opportunity to exchange a part of their best paper for cash in time of need is most earnestly desired by the small banks and is, in my opinion, by far the most important matter dealt with by the proposed legislation. We doubt whether the country bank in the Northwest will be able to avail itself of this privilege should this bill become a law in its present form, as the paper ordinarily carried by such a bank does not meet the requirements made. If this rediscount privilege is extended to the small banks and made immediately available in time of need, without delay by reason of cumbersome methods or otherwise, I am sure it would prove a privilege of inestimable value to all banks.

We are glad that some action is being taken by Congress and have no doubt that should the present bill be passed it will be amended later to suit the needs of the country at large, should it not prove entirely satisfactory.

Yours, very truly,

H. T. GRAVES, *President.*

Senator HITCHCOCK. Senator Nelson, have you any questions to ask Mr. Wells?

Senator NELSON. No.

Senator HITCHCOCK. Senator McLean, have you any?

Senator MCLEAN. No.

Senator HITCHCOCK. Senator Bristow?

Senator BRISTOW. You speak as a business man, and you are under the impression that it will cause a contraction of credit. What makes you think it will cause a contraction of credit, Mr. Wells?

Mr. WELLS. I should be glad to answer that question personally, Senator Bristow, but it is a branch of the subject that has been assigned to one of my colleagues on this delegation.

Senator NELSON. I want to say to the Senators that there is a delegation here, and they have different subjects apportioned to each of them, and perhaps it would be well to let this go until the gentleman who is to speak on this subject takes that up.

Senator BRISTOW. Of course I do not want to interfere with their plans, but it is a good deal more satisfactory to me to have the opinions of all of them on what appears to be important, because then you get the judgment of six men independent of any conferences which they have had, and I think we would get in that way a better reflex of opinion. That is all.

Senator POMERENE. That is right.

Mr. WELLS. I have not the slightest objection. But I do not want to appear to deprive my friends here of the privilege of presenting their subject. We are in perfect harmony on all of these points. We have reviewed them and assigned them to different members of the

delegation. The withdrawal of the capital in this manner, primarily, of course, represents the first shrinkage in the loanable funds.

Senator BRISTOW. That is, you refer to the contribution of the country bank——

Mr. WELLS (interposing). To the central reserve banks.

Senator BRISTOW. And deposits?

Mr. WELLS. The shifting of the reserves from the points at which banks are now getting interest to reserve banks that will pay no interest represents, of course, a great shrinkage. The proposed withdrawal of a vast sum of money that is now in the savings banks departments of our national banks—segregating that and making that usable for an entirely distinct line of investment—takes it out of business channels. Those, I take it, are the three chief channels through which the loanable fund will have disappeared.

Senator BRISTOW. Now, it has been argued here that, while the country banks contribute their capital stock and of their deposits, it is sent out of the community to a distant city, that they are compensated by being able to borrow back a large amount of it; and that, while apparently it reduces the capital in the national banks individually, it does not. That is the position assumed by Mr. Untermyer here this morning.

Mr. WELLS. Well, of course, the country banker, I think, universally claims that the privilege of rediscounting is not in practice available to him. The country banker is not possessed of paper that falls within the restrictions of this bill.

Senator BRISTOW. Yes.

Mr. WELLS. I have a little knowledge of country banking, and I have, of course, conferred with a good many friends who are country bankers. And the country bankers' paper is seasonable paper. It would be utter folly to take from the ordinary farmer, or the merchant who is dependent upon the farmer in the country, a piece of paper maturing at any other time than in the fall of the year. So that, while I was actively in that business, I know it was our custom, with such paper as we could not collect in the months of October, November, and December, to renew it, not until next spring or next summer, but until a year from that time. That, I think, will be found to be the chief asset in most of the country banks in the Northwest. It would be paper maturing——

Senator NELSON (interposing). In six months or a year?

Mr. WELLS. It would be maturing in the fall. Of course, very little paper is given by the farmers in the spring. They make their annual clearances and settlement when they have harvested and marketed their crops. They pay their debts as far as their crops will permit, and what they can not pay they renew until next fall, because the lender knows that it would be useless to take paper with an earlier maturity.

Senator BRISTOW. Yes.

Mr. WELLS. Well, so that, to be perfectly frank with you, the country bankers depend for their business upon the farmers, directly or indirectly. Now, farmers are improving in their circumstances, so that it is not as general as it was at one time; but they once marketed all of their crops in the fall within a period of 30 days. So that those conditions are changed to that extent now. But it will be a slow process to change them entirely; and until that is done,

a larger part of the country banks' assets will be found in the paper which matures in the fall, and which, if not paid, is extended until the following fall.

Senator HITCHCOCK. Senator Bristow, have you finished your questions?

Senator BRISTOW. Not quite. Then, from your experience as a business man and banker, you are under the impression that the paper that is provided here in the bill as security for rediscounts is paper held by the banks in the large cities more than by the banks in the country?

Mr. WELLS. Yes, sir. And even there I think it would be difficult to find the necessary basis for the credit required, except as paper might be worked off that had already run part of the period. I know that we borrow $1,000,000 every year, and yet I presume that 90 per cent of the paper—I do not know that I am quite correct, but 75 to 90 per cent of our paper—is six months' paper. That would only be available under the bill by catching it in the interval somewhere.

Senator BRISTOW. Yes. You say you borrow millions of dollars every year?

Mr. WELLS. Yes, sir.

Senator BRISTOW. And of the millions that you borrow, not to exceed 25 per cent and possibly not to exceed 10 per cent of it, would be available for use under the provisions of this bill?

Mr. WELLS. Except as I have intimated, that the banks having held that paper until it has come down to the period within which its maturity would carry it.

Senator BRISTOW. Yes.

Mr. WELLS. And make it eligible.

Senator BRISTOW. Yes.

Mr. WELLS. Except as to that, it is true.

Senator BRISTOW. Yes. Well, did you understand from the bill that provision is made for the retirement of the national-bank notes, and the only currency that is to be substituted for it is this currency based on 90-day paper?

Mr. WELLS. No; I can not say that.

Senator BRISTOW. But that is the provision in the bill. I think it is correct that the bill makes no provision for any substitute for the national-bank notes when they are retired, except this currency based upon the——

Mr. WELLS (interposing). Yes; I have understood that.

Senator BRISTOW. Yes. It is claimed by some that that would result in a great contraction of the currency and by others that it offers an unlimited possibility for inflation. What is your view as to that?

Mr. WELLS. The inflation would come through an excess of the use of the rediscount privilege, would it not?

Senator BRISTOW. Yes.

Mr. WELLS. That is the only way you would get the expansion. Now, that, of course, is a question that I am not qualified to answer. I am not a banker. My banker friends all assure me, of course most earnestly, that they would hesitate to rediscount—to become themselves responsible for large sums of money, merely for the privilege of turning around and loaning to their customers. It is contrary to

what has been heretofore considered good banking practice. It is possible that you gentlemen, through the medium of this bill, may so change that as to make it so attractive that bankers will fall over each other in order to come in and apply for their rediscounts. But I know it will be contrary to the prejudice of this whole country. There is hardly a business man who analyzes a bank's statement up to the present day who is not prejudiced against a bank in which he finds a showing of a rediscount.

Senator BRISTOW. Do you think, then, that it would be a rather novel and unusual proposition to have the entire currency of the country practically based upon rediscounts?

Mr. WELLS. I certainly do.

Senator BRISTOW. That is all.

Senator HITCHCOCK. Senator Weeks, have you any questions?

Senator WEEKS. Mr. Wells, you read a letter from a Jamestown banker?

Mr. WELLS. Yes, sir.

Senator WEEKS. Do you think that is typical of the opinion of country bankers in the locality which is tributary to Minneapolis?

Mr. WELLS. Why, I have perhaps either talked with or heard 100 or 150 country bankers within the last three months discussing this bill, and I do not remember to have ever heard an expression favorable to the provisions of the bill.

Senator WEEKS. The statement has been made that one reason for such a condition that exists is that bankers in reserve and central reserve cities were using their influence to urge the country bankers to oppose the bill. Do you think there is anything in that?

Mr. WELLS. Well, I do not believe they go so far as to use their influence to urge the country banker. I believe, quite frankly, that the bankers in our cities—the larger cities—more or less do influence the attitude of the country bankers. We can hardly doubt that. I think a great many country bankers either have not felt competent or have not been willing to go into an exhaustive study of this bill and to apply its provisions to their individual cases and determine for themselves what the effects would be. But they see two or three things that stand out conspicuously. The requirement that they shall contribute to a bank a part of their capital—to a bank over which neither they nor others like them have any sort of control, and in which they exercise no sort of influence. That is rather a natural sentiment. I think I would apply it to my own business, and that anybody else would.

Senator WEEKS. It is the same kind of influence which exists at all times in banking, that the country banker depends on his reserve agent for information about the quality of paper and other matters relating to the banking business, is it not?

Mr. WELLS. There is no doubt of that.

Senator WEEKS. And, naturally, he would be influenced by the opinion of the man on whom he depended in other matters.

Mr. WELLS. I have not a doubt about that.

Senator WEEKS. When I returned to my office after this morning's hearing, I found a letter from a New York business man who had recently been traveling through the West, and he said he found an impression among business men quite generally that conditions were such that it was necessary to pass the pending bill, or a bill like it,

and do it at once, in order to prevent some great catastrophe. Do you know whether any such condition as that exists?

Mr. WELLS. I do not think there is any such condition as that at all. I do not think the business interests would be prejudiced if no bill were passed at this session of Congress.

Senator WEEKS. You do not know of anything in the business conditions to-day which presents an emergency which did not exist six months ago or a year ago, do you?

Mr. WELLS. No. I think the conditions to-day generally—the outlook—is better than it was as distinguished from any fictitious condition that may result from uncertainties, just like this with regard to the complete upheaval in our banking system.

Senator WEEKS. Do you not think that my correspondent was deceived in his impression which he gained?

Mr. WELLS. That would be my impression.

Senator WEEKS. And that the business men of your section would look with approval on ample time being taken to present a bill which would be as nearly right as a bill could be?

Mr. WELLS. I believe that the business interests of the whole country—not merely those of our section, but of this entire country—would prefer to take the chance of a continuance under our existing banking system temporarily, but long enough to let the business interests of the country familiarize themselves with the proposed legislation, to digest it, and express themselves upon it.

Senator POMERENE. Senator Weeks, did that last question of yours have reference to this bill or to your resolution? [Laughter.]

Senator WEEKS. To general conditions. I heard you make one suggestion in your statement, Mr. Wells, that the members of the advisory council should live in Washington?

Mr. WELLS. Some representation of that committee.

Senator WEEKS. Well, do you mean the members or the secretary?

Mr. WELLS. I said, if you will remember—I qualified it—I will say now that I do not believe that it will be necessary that the entire advisory council should be so provided for, but that some representation, a small executive committee of three, if you please, if we have as large an advisory board as is suggested in the bill, which, I believe, would be 12, as it stands now, or the chairman and the secretary. But some one representative of that advisory board, who might be in constant touch with his associates throughout the country and serve as the point of contact between that board and the Federal reserve board.

Senator WEEKS. That would mean a secretary, would it not, probably?

Mr. WELLS. Well, whatever you choose to call it. The secretary is hardly, I think, the man. That is, there would hardly likely be chosen a man of sufficient importance to fully represent the banking interests of the country.

Senator WEEKS. It struck me when you said that as being an inadvisable suggestion, because if that advisory board is going to be of any real benefit, it is going to confer that benefit from the fact that it is made up of men from all sections of the country who are in immediate touch with business conditions in the sections which they represent and who should live there and be in business there.

Mr. WELLS. I think you are perfectly correct; but I believe there should be some proper medium through which the convictions and the impressions of these men scattered throughout the country should be brought officially to this Federal reserve board, and I do not believe it should be through a secretary. I think they should select their best man as chairman of the board, if you please—or three men as an executive committee, and let them reside here. It is just as important that they should keep in touch with the work of the Federal reserve board and the process by which it reaches conclusions as that the Federal reserve board should keep in touch with the country at large.

Senator WEEKS. I presume the banks would allow themselves to be assessed to pay the expenses, would they not?

Mr. WELLS. I think they would. I would if I were a banker.

Senator O'GORMAN. Mr. Wells, you say the present discount features of the bill will confer no benefit upon the country bankers?

Mr. WELLS. I did not make that statement myself. I said that that is the claim that is made. That is the impression of the country banker—that it would not.

Senator O'GORMAN. Have you any suggestion to make as to what modifications should be made in the pending bill, so as to extend the benefits of the rediscount features to the country banker?

Mr. WELLS. It is a pretty difficult problem. I will tell you right now that I would hate to suggest that the class of paper that the country banker in the remoter districts is obliged to take should be made the basis upon which our currency is issued—the collateral behind it. And that is not in the slightest degree questioning the quality of that security, but how any individual, or any board, is going to pass upon the quality of the paper of Dick Jones, for instance, given off in Wyoming, for a small bunch of alleged sheep, I do not know. [Laughter.]

Now, you can tell about the credit of our large concerns in our leading cities; it is a simple proposition. But when you come to rake the country with a fine-tooth comb and pick up all the pieces of paper that are perfectly good in the hands of those local banks, their neighbors, and pass upon them, and make them as important in the financial structure of this country as is proposed in the bill, I would not make the suggestion.

Senator O'GORMAN. You are in business in Minnesota, are you?

Mr. WELLS. Yes, sir; and in Dakota and Montana.

Senator NELSON. He lives in Minneapolis.

Senator O'GORMAN. The business outlook in that part of the country is perfectly satisfactory?

Mr. WELLS. Yes, sir.

Senator O'GORMAN. Better than it was a year ago?

Mr. WELLS. I can not say. It has been good for some time there.

Senator O'GORMAN. And the advance in business conditions has not been arrested at all by the tariff bill? [Laughter.]

Mr. WELLS. We have not been able to discover it.

Senator O'GORMAN. That is all.

Senator NELSON. We got a bountiful crop in our country, did we not, in Minnesota?

Mr. WELLS. We got a much better crop than we anticipated.

Senator NELSON. Yes. I want to ask you one question. How do you regard farm loans, mortgage loans, on improved farms?

Mr. WELLS. I think my concern carries always in its vaults from $300,000 to $500,000 worth of them. I do not know that any other answer is needed. We have been doing that for 36 or 37 years.

Senator NELSON. Do you regard it as first-class paper?

Mr. WELLS. I regard it not as first-class banking paper, but as first-class investment paper.

Senator NELSON. Is it better than stocks and bonds?

Mr. WELLS. I do not question the value of it. I think there is no better class of security in the world than first-class farm mortgages selected by intelligent men who are familiar with the conditions in the locality in which the property is situated.

Senator O'GORMAN. Might I ask you another question? What is the average rate of interest on your farm loans?

Mr. WELLS. Our farm loans are being made in Minnesota at a net cost to the farmer of 6 per cent.

Senator O'GORMAN. And in the other States?

Mr. WELLS. In North Dakota, I should say (now, I do not have time to give my personal attention to these details), I think I am safe in saying the maximum rate for farmers in North Dakota is 7 per cent, which covers agents' commissions and all expenses. In Montana, I think perhaps you will find the rate is just a trifle higher. As you get further away from the sources of supply and the settlement of the country is more scattered, and the expenses of examinations and all that are greater, necessarily there is a slight additional cost.

Senator NELSON. I think in the southern part of the State it is 5 per cent to 5½.

Mr. WELLS. Five and a half. It is not quite as low, Senator, as the rates were two or three years ago. There has been a highering of all rates in this country in the last 20 years.

Senator WEEKS. Where do you suppose these figures in circulation, to the effect that the farmers are paying 7½ to 8 per cent, originate?

Mr. WELLS. I think the people dream that largely.

Senator O'GORMAN. They are paying extreme rates in the Southern States now.

Mr. WELLS. Yes.

Senator WEEKS. They are paying an extreme rate in the Northwestern country.

Mr. WELLS. Yes. I made a little experiment down in the Imperial Valley that comes near being as good an estimate as anything I could get. I find down there the farmers are borrowing money at 8 per cent, total cost over everything. I do not know where you can find a higher rate than that.

Senator POMERENE. Mr. Wells, have you analyzed this bill so as to place in parallel columns the advantages the banker has under the present system and the advantages he would have under this system?

Mr. WELLS. No, sir; I have not.

Senator POMERENE. Or the disadvantages under either system?

Mr. WELLS. I have not, except as to some minor features of it.

Senator POMERENE. I notice, in answer to Senator O'Gorman's question, you disclaimed stating that it was your judgment that this might be prejudicial to the country banker, and expressed that as being the opinion of some of the country bankers.

Mr. WELLS. Yes.

Senator POMERENE. What is your individual opinion on the subject?

Mr. WELLS. I tried to make a parallel yesterday in a case of a single bank. I do not know whether I made it correctly. I am not a banker. I may have made mistakes, but I frankly say to you that it did not appear to be of such great disadvantage to that particular institution in its present condition as I had anticipated.

Senator POMERENE. Do you object to giving the instance you have in mind? I do not care for you to mention names or anything of that character, but give us your analysis of the proposition.

Mr. WELLS. I do not know that I have it here. I think I armed myself with everything that might possibly be called for. Yes; I have it. I took the case of a banker with a capital of $100,000, deposits of $600,000. Under the present law a reserve of 15 per cent—$90,000—with 6 per cent in the vaults and 9 per cent in the reserve banks is required. That is $54,000 in the reserve banks, upon which they are getting 2 per cent interest. That would be $1,080. The bill as it now stands, with a 12 per cent reserve, of which five-twelfths, which is 5 per cent, would have to be in the vaults, is $30,000, and $30,000 in the Federal banks, and at the expiration of a certain period, a tentative period, the other $12,000 is optional. Under the new law, in your bill as it stands at the present time, the bank would have $18,000. It would have that amount released from its reserves, which would be a reduction of the percentage from the reserve required. In other words, it would have $18,000 more available to be loaned out than it had under the old law. At the same 6 per cent it would earn $1,080, exactly the amount lost, and it suggested in my mind at once that this committee had had some good statistician work it out so that the proposed reserve would exactly destroy that argument that the bank was going to lose in that case. That seemed rather strange—an instance of that kind—that one would offset the other. The gain exactly offsets the loss. Now, 10 per cent of capital withdrawn—$10,000—reduced the loanable funds $10,000, at a loss, we will say, at the same 6 per cent, of $600 a year. Well, if this new experiment is successful, they earn 5 per cent, which would be $500. The apparent loss in that case would be $100.

I did not check my figures up to see if I had omitted anything or not.

Senator POMERENE. Did you take into consideration the fact that when the national bank desires to issue its notes they must have United States bonds, on which they only get 2 per cent?

Mr. WELLS. You mean under the existing law?

Senator POMERENE. Under the existing law.

Mr. WELLS. No.

Senator POMERENE. And that as against that, with 10 per cent of the capital stock invested in a regional bank, they would have to get 5 per cent on that?

Mr. WELLS. No, sir; I did not take that into account.

Senator POMERENE. Did you take into consideration the fact that this bank may have a reserve in the form of a regional bank, to which they may take their securities and get currency whenever they are pressed for it and need it?

Mr. WELLS. That I purposely omitted from the fact. As I said to you, I doubt if that bank would be in a situation to take advantage of that.

Senator POMERENE. That is hardly a fair statement of the situation, is it? Assume your notes with the country bank now are six-months' paper.

Mr. WELLS. Yes.

Senator POMERENE. There is constantly a certain amount of that maturing.

Mr. WELLS. Scarcely. I think you have overlooked one statement that I made. I am only guessing now at my percentages, but I know that it was strictly true a few years ago, and I think it is true now, that 90 per cent of the paper of a bank is maturing on the 1st day of November or the 1st day of December each year, no matter when it was taken, and, as a rule, it was all taken during the previous fall, winter, and spring.

Senator POMERENE. Let us see what kind of bank you had in mind when you made that statement.

Mr. WELLS. I have the ordinary, common, typical country bank in mind.

Senator POMERENE. One that deals wholly with the farmers and farmers' paper?

Mr. WELLS. Oh, no. The truth is that is the bulk of the paper in these country banks in the Northwest.

Senator POMERENE. What portion of the paper is really farmers' paper, compared with merchants' paper or commercial paper?

Mr. WELLS. I remember at one examination of that particular bank, a few years ago, I found quite a surplus and no merchants' paper. The merchants were in very good condition. But had there been merchants' paper there, it would have quite likely found in the same condition as the farmers' paper, as the merchant looks to the farmers to pay him and to pay his notes.

Senator POMERENE. Do those small banks invest in paper such as Wanamaker's and firms of that kind issue at times?

Mr. WELLS. I tell you, it seems to me that those farm districts are very prosperous to assume that they have any more loanable funds on hand than they can employ right in their own neighborhoods. Occasionally they do have, and invest in the same paper as all concerns do.

Senator POMERENE. I wish you would be a little more explicit in stating what you mean by "country banks." Under this bill here we have been discussing central reserve banks.

Mr. WELLS. And country banks.

Senator POMERENE. Reserve banks and country banks, which includes all banks outside of central reserve in the reserve cities. Would you give the term "country bank" as broad a meaning as we have?

Mr. WELLS. Not at all. In speaking of a "country bank" in Minneapolis, of course we refer to those of country banks lying off in the farming districts.

Senator NELSON. With a small capital?

Mr. WELLS. With a small capital of $10,000 or $15,000, and occasionally we find one like the one I referred to, with a capital of $100,000. That is exceptional.

Senator POMERENE. Are you speaking of State banks or national banks?

Mr. WELLS. Country national banks.

Senator POMERENE. And do those country national banks take farmers' paper for six to nine months in a year?

Mr. WELLS. Yes, sir; bushels of it. If they did not they would go out of business.

Senator POMERENE. They do not do that in our section—oh, I withdraw that statement, but not to a very great extent. It is usually three to four months' paper.

Mr. WELLS. With the expectation that it will be paid at its expiration?

Senator POMERENE. Oh, I could not answer that question. I do not know.

Mr. WELLS. Or do they simply renew it at its expiration? It depends upon what the risks are. If it is horses and cattle, or like the grain crop, they might be able to pay more promptly—in the grain-growing regions.

Senator POMERENE. You are speaking of the conditions that are peculiar to your States?

Mr. WELLS. Well, to the Northwestern States. Several of them in that group.

Senator POMERENE. You would suggest, then, that this limit be extended?

Mr. WELLS. The limit of time?

Senator POMERENE. Yes.

Mr. WELLS. I have not given that very much thought. I think I expressed myself a moment ago as not dealing with that kind of paper. Perhaps it would be capable of such investigation and inspection, but any board that would have to pass on it, it seems to me that inspection would be perfunctory, and practically it would simply have to take the word of the country banker, and believe in the honesty of the country banker.

Senator POMERENE. There is another question I wanted to ask you. You made a statement a moment ago in answer to a question of one of the Senators, to the effect that you had probably talked with from 100 to 150 of these country bankers, and had not heard any one express an opinion favorable to the bill?

Mr. WELLS. Yes, sir.

Senator POMERENE. How many of those bankers have read this bill?

Mr. WELLS. I could not make a guess at that. I did not ask that question. I could not tell you.

Senator POMERENE. Was the sentiment which you have given utterance to here due to the fact that they had studied and understood the bill, or was it due rather to the general objection that prevails among bankers that there should be no change in the banking system?

Mr. WELLS. Well, I do not think really that that sentiment prevails among bankers. I think the general feeling among bankers of the country is that there should be a change.

Senator POMERENE. What change?

Mr. WELLS. Any change. The most simple form that can be devised, that will give to our currency elasticity, that, in case of emer-

gency, will give us the funds that are required for the prosperity of the country. And I think the business men of the country, so far as I got their sentiment, do not want anything but that. They believe we have as good a banking system as there is in the world, if we can just get away from the hard and fast feature of it. They have not got the money when they want it.

Senator POMERENE. That is one of the things we want to provide for. Now, another proposition: Am I to conclude from your testimony here it is really your belief that this bill will restrict credits or contract them?

Mr. WELLS. I had a very valuable suggestion made by some gentleman a day or two ago. I asked him that question. He says, "I doubt if any member of this committee or any banker in this country has gone far enough scientifically to determine that question and give an absolute answer to it"; and the suggestion was made it might be a very wise thing if the right sort of experts could be found to take this thing through and, as far as possible, determine, if possible, whether it will result in a contraction or not.

Senator POMERENE. Mr. Wells, we have been trying to do that, and the great banker Forgan expressed the opinion that it would contract credits.

Mr. WELLS. I know; he told me that yesterday morning; but that did not convince me at all.

Senator POMERENE. And the comptroller, Charles G. Dawes, whom I know very well, expressed the opinion it would expand it.

Mr. WELLS. Yes. There you have it. It would seem to me that both men are absolutely honest and that Mr. Forgan may believe the banks would not avail themselves of the rediscount privilege and Mr. Dawes believes they would take advantage of it on a very liberal scale. I should say under this bill you might have any amount of expansion if the banks will avail themselves of the rediscount privilege. I tried to figure that out yesterday on the train, and I could not see but that the country would have an advantage under the rediscount privilege without there must be something wrong I had not discovered yet.

Senator SHAFROTH. You say, Mr. Wells, that you want elasticity of the currency?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. What is your theory as to how that elasticity would be obtained?

Mr. WELLS. As to the exact machinery that should be set in motion to accomplish that result I would not undertake to advise a committee that has given this so much thought. But, roughly speaking, my idea is that we should make the commercial assets of the banks the commercial paper of our banks, upon which our banking system todays rests—it would be worthless if that paper is not as fine security as there is in the world—to make that the basis for currency. By reason of its being based upon this commercial paper it would automatically retire when the emergency was over, and it should be issued freely and almost without limit in times of stress, simply based upon that; and a very small and inexpensive machine might be set up here for the getting of the billions behind the paper that we require to do business with in those times.

Senator SHAFROTH. Would you enlarge the scope of the paper which would now form the basis of a loan from the regional reserve bank?

Mr. WELLS. No, sir; I think not.

Senator SHAFROTH. The only thing would be that instead of the banks you would have the Government do it direct?

Mr. WELLS. No, sir; not of necessity. I am not going to express any opinion as to whether I think currency ought to be issued by banks or the Government. I do not care, because I believe it can be made absolutely safe in either case, and I do not care whether the Government does it or whether the banks do it.

Senator SHAFROTH. Then, as I understand, if you are not going to enlarge the character of the paper that is going to be the basis for the issue of this money, it is only as to the machinery you object to?

Mr. WELLS. Yes.

Senator SHAFROTH. Then, do you take into consideration that this bill provides that national banks have a right hereafter to take a mortgage upon real estate and relieve the farmers in that way upon one-year paper?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. That is a privilege which they do not have now.

Mr. WELLS. No; and it would not be of any use.

Senator SHAFROTH. It would not be of any use?

Mr. WELLS. Practically. In my judgment, the farmer has no use for one-year paper secured upon his farm. He will take it upon his cattle or growing crops or without security, but upon his farm he will not do it.

Senator NELSON. It is generally for five years?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. You would not want national banks to tie up deposits by making five-year loans?

Mr. WELLS. No, sir. I am not asking any expansion or enlargement of the paper. If you will just permit—if the country bank is not compelled to come into the system, if you will abandon this whole scheme of the reorganization of our banking and currency system and let it rest where it is, with the additional provision that the commercial paper found in our banks may be utilized as collateral for the issue of currency, in times of emergencies, the country banker is fairly indifferent. He would not have the paper to put behind him and would not need it, because there is collateral enough to spare in the city banks in this country in the case of the larger banks to provide all the currency this country needs, and they would not call on the country bank at all. And if it is not forced into it, it is indifferent to it. If it can have currency when it wants it, it could get it from the larger banks.

Senator SHAFROTH. Then, as I understand you, you would not enlarge the character of paper upon which this currency would be issued?

Mr. WELLS. I would not be willing to say that I would.

Senator SHAFROTH. It would appear the objection, then, that you have, is that the banker has no representation in this machinery.

Mr. WELLS. Oh, no. That is not the principal one. That is the only one I have undertaken to tell you of, perhaps, but there are several features in the bill that I do not approve of.

Senator SHAFROTH. You have stated from your figures the country bank won't have any the worst of it.

Mr. WELLS. I hope you won't think the figures are official, because I think I may have made some mistake in there.

Senator SHAFROTH. Oh, no; because we have gone over those figures right here, only with a bank of $50,000 instead of a bank with $100,000.

Mr. WELLS. And of $1,000,000?

Senator SHAFROTH. And of $1,000,000. Oh, they work out the same way, or nearly the same way. So that there is ultimately no loss to the country bank or the city bank; and the advantage he gains is by reason of having the reserve of 15 per cent, 9 per cent of which would be in banks, cut down to 12 per cent, with only 5 per cent required in bank, and thereby releasing that much more money than under the present law. It gives him an advantage that is about equal to his present conditions and the advantage, of course, in times of stress, times of crises, that he has a reserve bank he can go to, at which he can get money. And while he can have all the money of the bank, he would have to have paper to do that, but he will have some and relieve his conditions to the extent of the paper which he does have.

Now, I want to ask you as to the other objection you made, which was that there was no representation. There is a representation in the reserve bank, is there not?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. Three men are to be selected by the bankers?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. And then three men are to be selected from agricultural and other interests?

Mr. WELLS. Yes. I think that is a very fair apportionment.

Senator SHAFROTH. Now, there are six men, and the other three to be selected by the board constitute the representation upon the board of the Government.

Mr. WELLS. Yes.

Senator SHAFROTH. Now, when a man goes to these regional reserve banks—that is, the bank he does business with and he does business with no other—he has a body composed of six men of his own choosing, as against three men of the Government's choosing, and surely that is a representation of him, if he is a banker. When he goes there, these bankers that are there and selected by the bankers will evidently look to his interests as against any oppression that the National Government might undertake to place on him, would it not?

Mr. WELLS. Yes; but they would be powerless as against the supreme power there—the Federal reserve board.

Senator SHAFROTH. You will find it is not contemplated that the individual bankers should have anything to do whatever with the reserve board.

Mr. WELLS. But the Federal reserve board, I understand, is supreme in control of the whole system, including the regional banks, the reserve banks.

Senator SHAFROTH. Certainly; that is true. There has got to be some kind of control over the reserve banks, but the individual banker does not come in contact at all with the reserve board. It is purely where there are disputes arise. It might be he might have an ap-

peal of some kind that the board did not treat him right; but there are the six men, representatives of the bankers, to see that he was fairly protected?

Mr. WELLS. But, Senator, we will assume now, our next administration was to be Socialist, for instance.

Senator SHAFROTH. Yes.

Mr. WELLS. Would you, if you knew that, and that the appointive power and control of the Federal reserve board was to pass into the hands of that sort of administration, would you favor it or would you feel—I have no right to ask you that question—would you believe it would be possible for them to build up, out of that, a political machine that would be greatly opposed to the substantial interests of this country?

Senator SHAFROTH. I do not think they could. Men have got to be controlled by law, and here is the law with relation to this matter, and they are supposed to follow it. I am not going to suppose people are going crazy, but that we are going to have patriots in every business there is. Now, you take the Federal reserve board, your objection can not stand good as to the regional reserve bank, because the individual bankers have got two-thirds of that board. Now, you take the upper board, and it is true there is no one that is to be a banker upon that board. But do you know that the reason of that is that the experience of all European bankers, the central banks, has been not to have a single banker upon their board of directors? That is the experience in every European bank.

Mr. WELLS. Are you quite sure in that, Senator?

Senator SHAFROTH. Yes.

Mr. WELLS. We do not call bankers here just what they call bankers abroad.

Senator SHAFROTH. I mean a bank that cashes checks. You can not find in the banks of Europe any person who is a banker on the board of the Bank of England, the Reichsbank, or the Bank of France, and the reason is because the power to raise or lower the rate of discount is vested in this central board, this reserve board, and the power to do that imparts a knowledge in advance as to when they will do it, and the raising or lowering of discounts is something that affects markets immediately. It produces a little boom in stocks if it is lowered, and it produces a decline if the rates are raised. The result is that it gives a knowledge to a banker who might be on the board by which his individual bank could profit, and the bankers do not want that. They say that is an unfair advantage to the banker, and for that reason there never has been upon the Bank of England a banker in the sense of an officer in a bank or a stockholder in a bank that cashes checks. That is the reason; with that in view this bill has been drawn. It is not against bankers; it is because bankers, in their wisdom in the other parts of the world, have come to the conclusion that the best men for it are really those who are not bankers.

Mr. WELLS. Just a word in there, if I may ask a question. You are getting pretty deep for me. I told you I was not a banker. In those countries to which you refer, does the Government compel all of the private banks, all of the banks outside of the Government banks, to contribute to the capital of that stock?

Senator SHAFROTH. As a matter of fact the central banks are the banks which relieve the other banks. The policy in providing for

those banks is that they shall not be mixed up with the other banks, because they deal practically only with the outside banks. It was thought that for that reason bankers should not be upon this central reserve board, because otherwise it might result in favors being shown to a certain line of banks, or something of that sort. Mr. Morgan's bank might be preferred; Mr. Rockefeller's bank might be preferred; something of that kind might get into it. It is supposed that the merchant is the man who feels first the effects of a shortage of currency or of any inflation of currency. He feels, in the first place, the demands for cash for the bills which he has outstanding, and, second, he feels the first pulsation of a change in the money market, and naturally he would be the first to go to the bank and say "We want more currency; our commercial transactions indicate it." The requirements of a director of the Bank of England is that, first, he shall own stock to the extent of £500 and that he shall own a mercantile business of at least £100,000 or he is not eligible. The theory upon which those rules are made is that that merchant feels the impulse; he feels whether or not more money is needed or less money is needed; whether credit should be expanded or whether it should not be expanded; whether gold should be withdrawn or not. That is their theory for providing those rules. Now, I do not see that we will inflict harm or injury upon anybody by adopting the same policy with respect to that.

Mr. WELLS. I will tell you, Senator, with perhaps a slight amendment there you would remove a great objection to this bill. It is very evident that this committee has given great study and thought to this bill, but if you will just make it optional and permit us to come in if we wish, I think it will solve the difficulty. If it is such a good thing, if it will work such wonderful results for the banker and the people of the country, why not leave it optional? If he comes in voluntarily, he is going to feel much more satisfied than if he is lashed in, and if he is lashed in he is going to look for faults.

Senator SHAFROTH. Well, they do not have to apply for a charter for a national bank. He has a perfect right to go out of it if he wishes. He is not coerced. He can reorganize into a State bank and do the same business and keep his own customers.

Mr. WELLS. Well, I would not want to argue the question as to whether it would be a breach of faith in changing privileges which have been granted to the national banks and which have extended over a long period of time. If he goes out of it, if he exercises that option of which you speak and goes out of the system, he certainly has given up a valuable interest. A banking franchise, a national-bank franchise, with a well-conducted bank, having run over a period of years, is valuable, and if you are going to force him either to accept this provision of law or to make a voluntary sacrifice of his valuable franchise, I think it is hardly fair.

Senator SHAFROTH. Banks have already done that, particularly in some of the Western States, where they have found it to their advantage to go from a national-bank system to the State system. There has been no objection on the part of the Government to their withdrawal.

Mr. WELLS. This was optional; they were not forced to go out.

Senator SHAFROTH. It was optional with the banks, and it was also optional with the National Government. Now, when the Government

gives that—the option of staying in on its own conditions or of going out of the system—you say it is a breach of faith. Why should that be a breach of faith? You have subscribed to all these things, and we want you to stay in there. When these banks have withdrawn from the national-bank system the Government has never adopted the position that it was a breach of faith on their part in doing so.

Mr. WELLS. If the bank goes on and exercises its privileges in fixed accordance with the law under which it is organized, could not a breach of faith be implied?

Senator SHAFROTH. Neither could it when we adopt the law we are considering. There is hardly a period of years which elapses——

Senator NELSON. If it is such a good thing why force them to go into it?

Senator SHAFROTH. We want one system. That is the reason. The question as to whether this is to be a universal or not, in my judgment, goes to the fact as to whether all the banks of the country are going to come into one system. I would like to see all the State banks come into the system. Of course we have no jurisdiction over the State banks.

Senator HITCHCOCK. Senator Shafroth, I want to call your attention to the fact that we have six gentlemen in this delegation. We have a New Yorker with us to-morrow and it is very important that we should soon get through.

Senator SHAFROTH. All right. I will not ask any more questions of this witness.

Mr. WELLS. Thank you, gentlemen. I am very happy to get through. I fear I have got into a position of a defender of banks.

STATEMENT OF CHARLES M. HARRINGTON, OF MINNEAPOLIS, MINN.

Senator HITCHCOCK. Please state your name, residence, and business, Mr. Harrington.

Mr. HARRINGTON. My name is Charles M. Harrington. I live in Minneapolis; I am a grain dealer and in the grain-elevator business. The companies of which I am an officer operate in about 800 towns where we buy grain from the farmers. We have large storage elevators in Minneapolis, where we store grain, with a capacity of 7,000,000 bushels, and we have 75 retail lumber yards where we sell lumber.

Before proceeding to a discussion of the banking and currency bill now before your committee, this delegation wishes to express its appreciation of the sincere effort that is being made to give this country a sound banking system, and its hope that it will be able through sound and constructive criticism to contribute to that end. We appreciate the great difficulties that surround this subject, and in the presentation of our views wish to make more clear, if that is possible, the effect upon commercial business of the provisions embodied in the bill.

In presenting the requirements of business in the Northwest, it is necessary to understand that we represent an agricultural country, the largest business of which is that of moving the crops. This movement is of a seasonal nature, requiring a very large volume of money, perfect transportation, and perfect terminal and market facilities if farmers are to sell promptly at the world's prices and realize the maximum return upon their products. Of these products wheat is

the principal item and may be considered as properly representing the movement of all cereal crops.

Wheat is sold by the producer for cash at his near-by railroad point. It is there received by line elevators, independent country elevators, or farmers' cooperative elevators for storage or shipment to the terminal markets, as the demand may indicate. The records of the railroad and warehouse commissions of Minnesota, North Dakota, and South Dakota show that there are 2,527 line elevators, 1,130 independent elevators, and 857 farmers' elevators, a total of 4,514 in these States. The managers of the 857 farmers' elevators companies claim to handle more than 50 per cent of the total grain purchased. The line companies largely center in Minneapolis, where the principal market is located and where the greater number of important grain and commission firms are likewise located.

Grain and commission firms largely finance the farmers' elevators in the country as well as many independent elevators. There are more than 90 firms or corporations in Minneapolis doing this kind of business. Farmers' elevators are usually financed by advances against bills of lading or on notes secured by the signatures of farmers—stockholders. The proceeds of notes or advances are used in the regular course of business for the purchase of grain coming in from the adjacent districts. Advances of this character represent a total of from $20,000,000 to $25,000,000 yearly, depending upon the amount of the crop and prices. This sum comes from Minneapolis houses in the grain business, who in turn borrow at Minneapolis banks, but are at the same time very heavy borrowers direct from Chicago, New York, and Boston banks, with whom they have their connections. Line elevator companies supply their various elevators with crop-purchasing funds and represent a very large element in the borrowing for the movement of the crop. Their financing is likewise done in part by Minneapolis and local banks, but largely through direct connections with Chicago, Boston, and New York banks. Country banks have but a minor part in the grain movement at the local points. Elevators not owned by line companies prefer to deal with grain or commission firms. Many independent elevators have the same preference. The amount of business left for local banks is comparatively small, and not being equipped or prepared to afford the special facilities required by the trade, notably at terminals, these banks do not participate to any extent.

Crop movement financing, therefore, falls almost entirely upon terminal market banks at Minneapolis and Duluth, and upon Chicago and eastern banks with which the grain commission and elevator firms have their own connections. The volume of these transactions and amounts annually required to move the northwestern crop are indicated by the following official Minneapolis Chamber of Commerce figures:

The Chamber of Commerce in Minneapolis is the grain-trade organization, and I speak of it not in the sense that the expression "chamber of commerce" is usually used in the East.

The receipts of wheat at Minneapolis for the 90 days from September 1, 1912, to December 1 following were 78,074,900 bushels, which, at 80 cents, represents $62,500,000. Country stocks of wheat on December 1, 1912, were 38,000,000 bushels, which, at 80 cents, represents $30,400,000, or a total paid out in cash to farmers to move their wheat during the fall period of $92,900,000.

During the second period, from December 1, 1912, to March 31, 1913, figured on the same basis, there was used an additional sum of $62,090,000. The same figures for the third period, from April 1 to June 30, 1913, represent a total of $22,650,000.

It should be borne in mind that this total amount, $177,640,000, is for the wheat crop only and but for one market. The average receipts for farm products in the three States is several hundred millions of dollars annually.

It is therefore apparent that any disturbance of the credit relations of the great grain markets will have an inevitable effect not alone on the delicate adjustment of market conditions but upon the prices realized by the farmer. Experience has clearly shown that it is the small market operator, the competitor of the larger firms, who sets the price. With his competition removed, through such a process as might hamper or restrict his credit, the market would be in the hands of the more powerful concerns, which through more important and more solid relations as borrowers, with great banks and financial institutions, would weather a period of restricted credit. The ability of the farmer to promptly sell at the world's price depends entirely upon the ability of grain commission and elevator companies to get credit and supply promptly the cash for local purchases of grain. We anticipate that the operation of this bill, as its provisions are outlined at the present time, would restrict this ability and produce such a period of restricted credit as is above referred to.

I am not a banker or interested in banks, and do not claim to be an expert financier. I will admit being a good borrower, as our companies borrow many millions of dollars each year. I have read the proposed bill and many comments upon it, and have heard it discussed, and I believe because of the loss of the savings funds for commercial purposes, the loss of reserve deposits from country banks, and the Government deposits that there will be a very great contraction of credit. The advocates of the measure will undoubtedly say that this will be offset by the ability of our banks to rediscount. A typical case will illustrate what condition might then arise. The probable loss of deposits of one representative Twin City bank which loans freely in support of the grain, lumber, and distributing business—as of the Northwest—will be $6,000,000, or about 25 per cent of its total deposits. This amount, less reserve held against it, represents $4,500,000 of loanable funds. This bank, to maintain unimpaired its present loaning ability, would be forced to carry at all times rediscounts amounting to $4,500,000 with the Federal reserve bank of its district. Such an amount is one and one-half times its entire capital stock. On such rediscounts the bank becomes responsible, and the loans to it by the Federal reserve bank become a lien upon its assets. It is very doubtful whether the directors or stockholders of this institution would permit the assumption of such a risk.

This same condition would prevail in all cases with Chicago and eastern banks.

We have gotten along very comfortably under the present system in spite of the occasional panics and pinches, and it seems to us that radical changes ought not to be made. If a law can be so framed as to give our currency elasticity, and a place provided for our banks to go to for help in an emergency, the business interests will be best served.

Senator BRISTOW. Take the restricted credits that you referred to. I understood that to be withdrawing of deposits.

Mr. HARRINGTON. That is one of them.

Senator BRISTOW. Which this would force from the banks that are now taking care of the business.

Mr. HARRINGTON. Yes.

Senator BRISTOW. So as to compel all business men who are getting these accommodations, as they are commonly called—I do not like that word myself; I do not think it is any more accommodation to the man that borrows the money than to the man who loans it. As a matter of fact the banker that loans the money gets his money back, and it is an accommodation to him to get the business; but that is the term the bankers use to make you feel that they are accommodating you, specially when they loan somebody else's money, and so I will use it. The business man who is accustomed to go to these banks to get the money would have to go to this reserve association.

Mr. HARRINGTON. If these same banks were to give us the same amount of money we would have no objection. The banks themselves would have to go to the reserve banks and indorse our paper, and we would rather hesitate to ask them to do that.

Senator BRISTOW. Would your paper be commercial paper under the common acceptation of that term?

Mr. HARRINGTON. Our paper is made in that form, but we usually borrow six months, and in borrowing in the fall we usually renew until May or June. We fill up our elevators in the fall when the grain comes in and sell the grain in the spring at the opening of navigation or later on when the mills want it. Our paper is never longer than six months, but it is frequently renewed for another six months, so we have the money all the year.

Senator BRISTOW. Do you ever pay off all your indebtedness to the banks, or do you carry an indebtedness right along?

Mr. HARRINGTON. We have several companies, and many of them pay their indebtedness every year in the summer. Between crops all of them reduce it, and at some time during the year they all pay up—all the grain companies.

Senator SHAFROTH. I want to ask you a few questions. You said:

> I have read the proposed bill and many comments upon it, and have heard it discussed, and I believe it will cause loss of savings funds for commercial purposes.

Wherein would there be any change in the national bank law with respect to that now under this bill.

Mr. HARRINGTON. As I understand the bill the savings deposits are to be segregated and used for loaning on real estate, etc. They would not be available for merchants, jobbers, manufacturers, grain dealers, and others. That is what I mean by that.

Senator SHAFROTH. Is not that practically done at the present time in the discounting of notes that are collateral—farm mortgages or securities of such kinds?

Mr. HARRINGTON. No, sir; I understand not.

Senator SHAFROTH. That is the first time I have heard that objection made, and I do not know the full force of it.

Mr. HARRINGTON. I think you will find that the national banks are only required to keep a reserve of 5 per cent on their savings deposits, and then they can use that money to loan to the grain con-

cerns—speaking of our northwestern territory—to our millers, to our manufacturers, and jobbers, just the same as any other deposits.

Senator SHAFROTH. What proportion do the savings-deposit feature of the banks bear to the total amount of the business of the banks?

Mr. HARRINGTON. One of our members will speak on that subject; he has the figures. Personally, I can not give them to you.

Senator SHAFROTH. Well, at another point in your statement you spoke of the loss of reserve deposits from country banks. That is a matter of where you are speaking now of a city bank?

Mr. HARRINGTON. Yes, sir; we borrow our money in the Twin Cities, Chicago, Boston, and New York.

Senator SHAFROTH. And Minneapolis is bound to keep a reserve in Chicago or New York, is it not?

Mr. HARRINGTON. We borrow there, too.

Senator SHAFROTH. Yes; but the national bank of Minneapolis is bound to borrow there, is it not?

Mr. HARRINGTON. I do not know that they do.

Senator SHAFROTH. It is bound to keep a reserve there. It is bound to keep 12½ per cent there.

Mr. HARRINGTON. Yes.

Senator SHAFROTH. Now, then, it would not have to keep that in these banks in New York, because they could then go and keep 9 per cent with the national reserve banks, and thereby it would save 4½ per cent, would it not?

Mr. HARRINGTON. Would not they have that much less in Chicago?

Senator SHAFROTH. One of the objections which has been made among the people has been that too much of this money centers in New York, and that for that reason it is intended to relieve that situation and ease up the banks in the interior. The three reserve cities are St. Louis, Chicago, and New York. In the case of your Minneapolis bank it would gain actually by not having to put up more than 9 per cent, whereas now it has to send to Chicago or New York 12½ per cent.

Mr. HARRINGTON. That may be true. I do not dispute you.

Senator SHAFROTH. Instead of being at a disadvantage it would be an advantage to the Minneapolis bank, it seems to me.

Mr. HARRINGTON. Their losses there in the case I have cited are entirely from banks for whom their reserve agents——

Senator SHAFROTH. The Minneapolis bank would lose some by reason of these banks distributing to the reserve banks, but they gain by reason of not having to put 4½ per cent as much money in Chicago and New York as the present law requires, and that, I think, you will find is fully as much of an advantage as they have now.

Mr. HARRINGTON. It may figure so. I said in the beginning, you know, that I am not a banker.

Senator SHAFROTH. And you further stated that the Government deposit there will be a very great contraction of credit and loss of reserve in the deposits of the country banks and the Government deposits.

Senator NELSON. I suppose that will be covered by something said by some of these other gentlemen.

Senator SHAFROTH. All right.

Senator HITCHCOCK. Mr. Harrington, you estimate about $60,000,000 of the reserve deposits of country banks that a single bank in

Minneapolis would be required to part with? Can you give an estimate of the amount of reserve deposits which all the Minneapolis banks could be required to dispense with?

Mr. HARRINGTON. No; there are two other banks of equal size there. There are about 18 savings banks of smaller institutions. It would be about $20,000,000.

Senator HITCHCOCK. If these national banks of Minneapolis are required to turn over this $20,000,000 to reserve banks of that district, do you know how those banks will go to work to secure the necessary cash for that purpose?

Mr. HARRINGTON. They would take notes.

Senator HITCHCOCK. That would produce a contraction of credit with the capitalists and would produce a similar contraction of credit in all the 50 reserve cities of the United States.

Mr. HARRINGTON. Yes, sir.

Senator HITCHCOCK. That is all.

Senator SHAFROTH. I want to ask you about your reference about the $500,000,000 to which you referred. Does not that constitute all of the deposits of the country's banks in the one bank?

Mr. HARRINGTON. No, sir; their deposits are $13,000,000, and an officer of the bank stated that they would undoubtedly lose half of that; and so, instead of calling it $6,500,000, I called it $6,000,000.

Senator SHAFROTH. There is no calculation which has been made as to the exact per cent there.

Mr. HARRINGTON. They went to the bank. They made a statement that there was $13,000,000 of that sort of deposits in one of the banks, and I think probably that would be at least one-half.

Senator SHAFROTH. This country bank, however, instead of depositing that $6,000,000 with a private bank in Minneapolis, would deposit that money in the Federal reserve bank in Minneapoils.

Mr. HARRINGTON. If they went in.

Senator SHAFROTH. If they went in. Then the money would be still there, and the right to get it out by the Minneapolis banks or any other bank would be there by borrowing on collateral, would it not?

Mr. HARRINGTON. I have stated so; but I doubt if a bank would want to go in there and indorse the paper of their customers to the extent of $6,000,000.

Senator SHAFROTH. They do not have to do it.

Senator NELSON. They have to do it to get the currency, don't they?

Senator SHAFROTH. That is all true; but it is the individual bank, the country bank, that indorses the paper. He does not go to the city bank and get it to indorse the paper for him. It is simply the one bank that indorses the paper. If they would do it in one instance, it seems to me it could be done in another instance.

Senator BRISTOW. The Minneapolis bank is going to use the same process that the country bank would.

Senator SHAFROTH. Certainly it would, but it has the collateral there. It has this commercial paper, which it can present there and get currency, and put that currency in circulation, and it will permeate to all parts of the country.

Senator BRISTOW. But it has to get it just as the country bank would.

Senator SHAFROTH. Certainly; the Government is not going to give it to him.

Senator HITCHCOCK. Your point is, Mr. Harrington, that you think it doubtful whether this particular bank, in order to secure the $6,000,000 which it would part with, would be required to indorse $6,000,000 of good commercial paper and discount it with the reserve banks?

Mr. HARRINGTON. That is the idea.

Senator HITCHCOCK. And you doubt whether the bank would care to indorse $6,000,000 of paper?

Mr. HARRINGTON. I doubt if they would be willing to do it. Of course, it would make no difference to us.

Senator O'GORMAN. Do you think a bank would hesitate to indorse good and merchantable paper when the paper was so good that it would be prepared to discount it itself and get the money into its vaults?

Mr. HARRINGTON. I do.

Senator O'GORMAN. Why?

Mr. HARRINGTON. Because it is contrary to all good banking under the present arrangements.

Senator O'GORMAN. This system contemplates the change.

Mr. HARRINGTON. Under the new system, if it should become popular, they might do it. Perhaps they will do it. I hope they will do it, because we will have to do business under this new system.

Senator O'GORMAN. It is conceded at the present time that rediscounting is regarded as poor banking, but if you assume that this legislation will lead to a change in that respect among the bankers of the United States, then the objection you have just pointed out would fall?

Mr. HARRINGTON. Certainly; if we get the same amount of money it would make no difference.

Senator BRISTOW. Is it not a fact that this bill will force either a change of the practice or result in the contraction which you suggest?

Mr. HARRINGTON. Yes.

Senator BRISTOW. It is regarded bad banking to be hawking your paper around and selling it. The customer does not like it and the bank does not like it. It is proposed by this bill either to compel the banks to do that or it will result in a contraction of the credit.

Senator SHAFROTH. Let me ask you one more question. Is not the difference between whether the Minneapolis private bank discounts this paper or the Federal reserve bank discounts it—is not this an advantage in favor of the discounting by the Federal reserve bank, and that is when you deal with the Minneapolis private bank all that it does is to settle differences between customers and the bank itself; whereas, in addition to the Federal reserve bank doing that same thing there is an element of increasing the currency which goes into the hands of the men—the country bank and the business which it does, and it increases the circulation and thereby makes times better. Yet you ignore that great advantage in your discussion of this question with relation to the discounts to be made with the private bank of Minneapolis and the Federal reserve bank of Minneapolis.

Mr. HARRINGTON. Perhaps I have, sir.

(Thereupon, at 5.45 o'clock p. m., a recess was taken until tomorrow, Wednesday, September 24, 1913, at 10 o'clock a. m.)

[END OF VOL. 1.]